

PEI LENDING AGENCY

Annual Report 2010-2011



Prince
Edward
Island
CANADA

Message of the Minister

The Honourable Barbara A. Hagerman
Lieutenant Governor of Prince Edward Island
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

May it Please Your Honour:



Pursuant to the *P.E.I. Lending Agency Act* and as Minister designate, it is my privilege to submit the Annual Report of the P.E.I. Lending Agency for the period ending March 31, 2011.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Allan V. Campbell".

Allan V. Campbell
Minister
Department of Innovation and Advanced Learning



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Message of the Board Chair

March 31, 2011

The Honourable Allan V. Campbell
Minister
Innovation and Advanced Learning
Province of Prince Edward Island



Dear Minister:

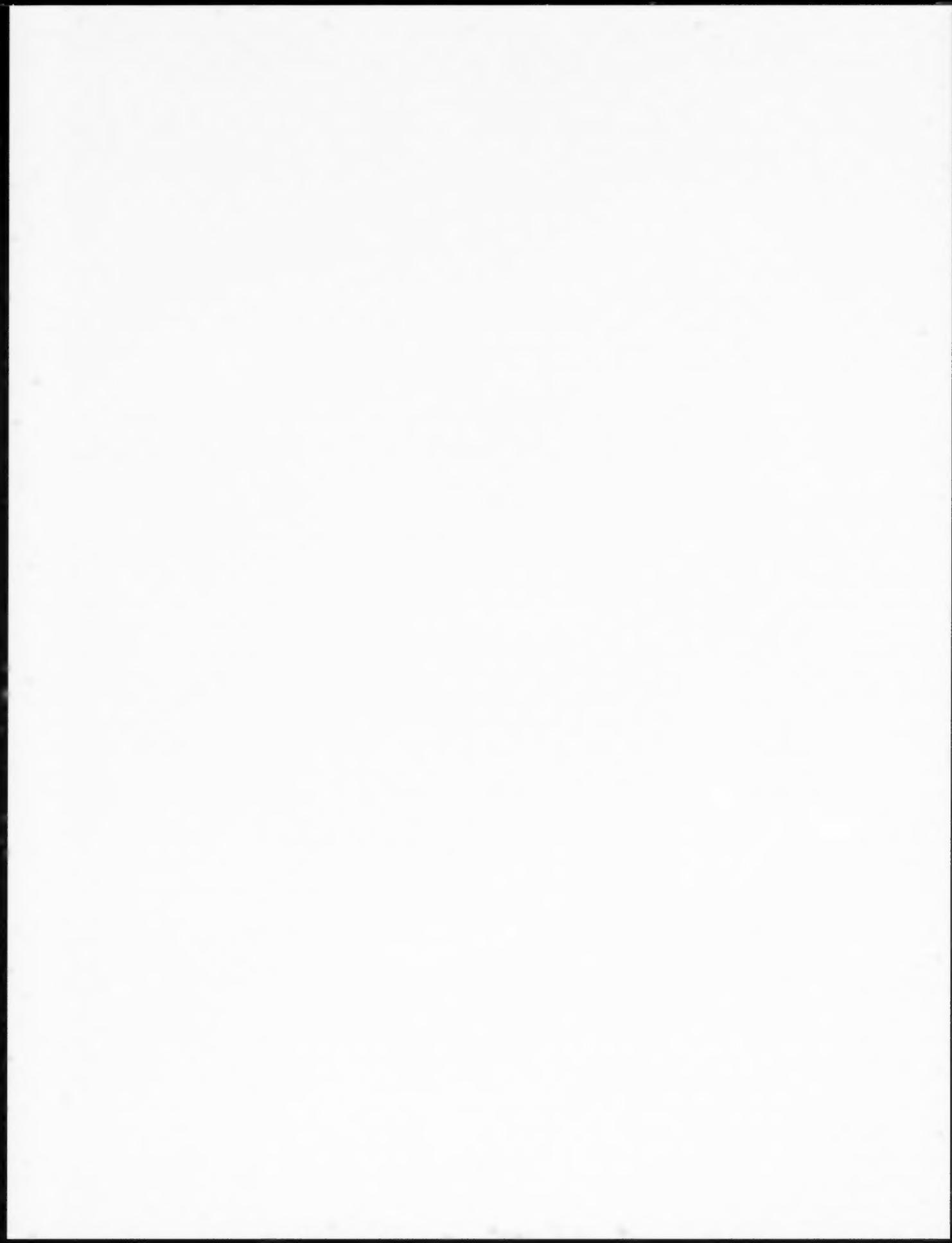
On behalf of the Board of Directors of the P.E.I. Lending Agency, I take pleasure in presenting you with this, the Annual Report of the Agency for the fiscal year ending March 31, 2011.

This report is being presented pursuant to the *P.E.I. Lending Agency Act* and Regulations.

Sincerely,

A handwritten signature in cursive script, appearing to read "Alan Sherron".

Chairman
Board of Directors
P.E.I. Lending Agency



Message from the Chief Executive Officer



It is my pleasure to present the Annual Report of the PEI Lending Agency for the fiscal year ending March 31, 2011.

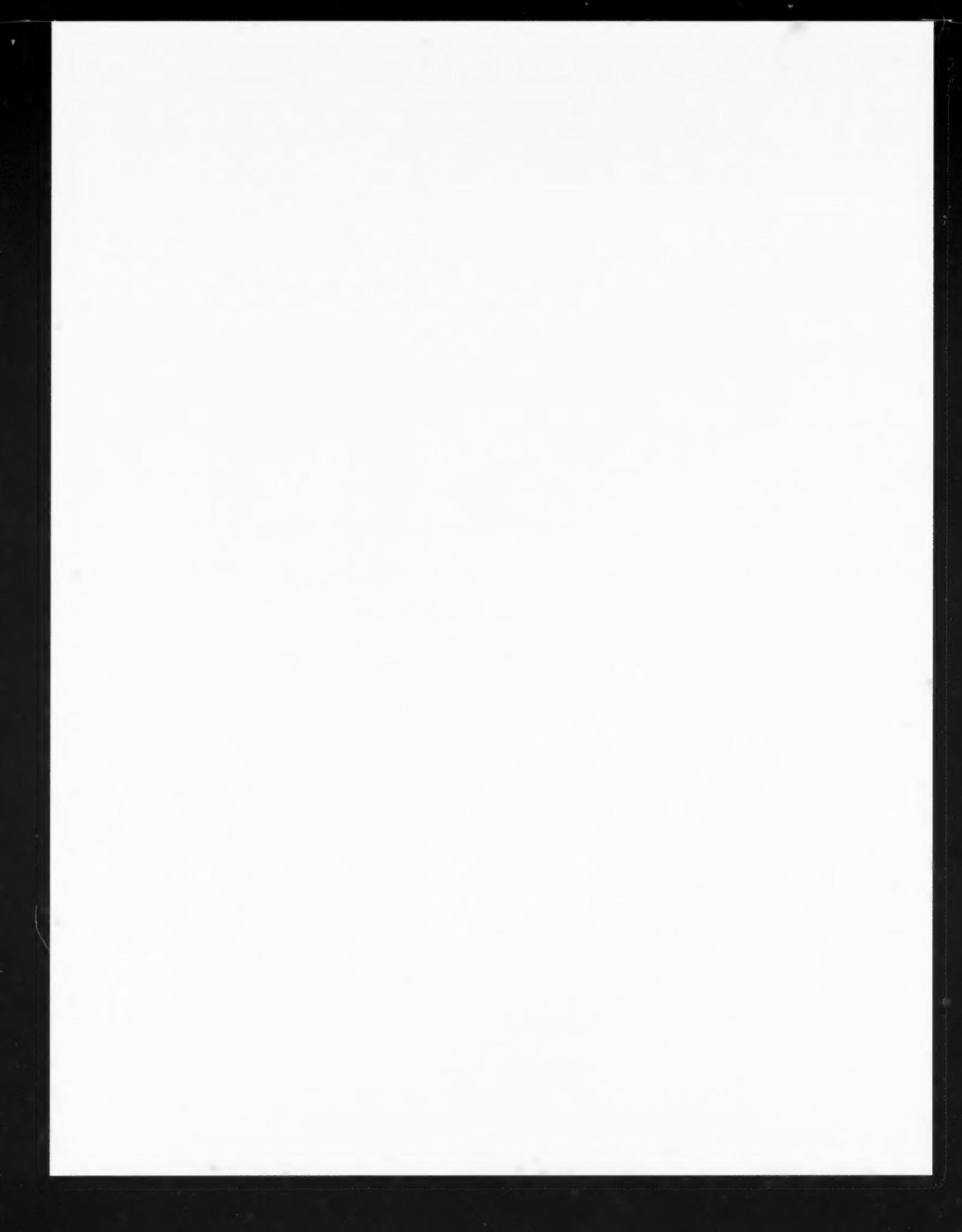
While many Island businesses faced a number of challenges over the past fiscal year, staff of the Agency have worked hard to support our industries and citizens. From creative solutions on individual financial issues, to guidance for and provision of programs developed to ease financial hardships faced by many, the goal has remained the same. Supporting businesses supports people, through employment and financial independence. And the resulting economic spinoffs from such successes can have a rippling effect that are far reaching within our Island community.

The commitment of both the Lending Agency and Government as a whole, to assisting when and where needed, can be evidenced by the continued growth of the portfolio. While responsible management of government resources remains always an important and constant consideration, 'can we do it, and how' will remain our view when meeting each new challenge.

Respectfully submitted,

A handwritten signature in cursive script that reads "P.A. Wilson".

P.A. Wilson
Chief Executive Officer



Mandate of the PEI Lending Agency

The mandate of the PEI Lending Agency is to provide financial assistance, through loan agreements, in support of the government's economic development strategy; to support enterprises that demonstrate reasonable viability, though are unable to access private sector financing on terms and conditions required to meet their needs; and to provide loans and credit assistance to businesses maintaining or expanding economic development activity on Prince Edward Island.

The Agency is to operate as a responsible, professional lender, basing decisions or recommendations on sound lending practises. Under the authority of the PEI Lending Agency Act and Regulations, the Board of Directors, consisting of 6 private sector and two government designated Directors, provide Agency staff with consistent guidance and direction. They strive to meet the needs of Island industries and individual businesses throughout the constantly shifting priorities and challenges which may evolve as a result of local provincial issues or from various constraints imposed by national and international markets.

Though the general mandate of the Agency will remain unchanged, the focus may be altered in favour of specific industries, at government's direction, or through identifiable gaps which may emerge in commercial bank financing. With their singular objective of profitability and with policy decisions which are generally nationally directed, there will always be areas or gaps left by the banks that the Agency will be needed to fill.

As the province's lending arm, the Agency will undoubtedly continue to collaborate with other Government departments and corporations to structure financial programs to promote new development or to assist industry specific difficulties. It continues to support the needs of our primary industries for capital purchases, expansion and operational expenses as well as encourages financing of non-traditional, potentially prosperous new enterprises.

The Agency is unquestionably a higher risk lender and often lender of last resort. Where any business can continue to demonstrate a potential for viability, the Agency is generally supportive to providing assistance as it will maintain current employment while offering the operator the opportunity for recovery. This is a role the Agency has historically provided and numerous businesses have been ultimately successful due to this support in difficult times. Also, differing from the commercial banks' profit requirement, the Agency's mandate is to strive for a break-even operation. If this can be achieved there are numerous benefits to the province, in various capacities, but no cost to the taxpayer for the service. By sustaining businesses and maintaining employment, it reduces the drain on already stressed provincial and federal support programs. In addition, revenue from business, personal and sales taxes is maintained. These are all valuable considerations and are weighed, along with various other factors, when decisions are made by Agency staff.

Corporate Profile

The P.E.I. Lending Agency was established to provide both term and working capital loans to eligible borrowers in the following sectors:

Small Business

Definition—Small Business includes any person that:

- (i) carries on business, or intends to carry on business, in the province,
- (ii) does not employ more than 100 employees, or
- (iii) did not have annual gross sales exceeding \$10 million in the fiscal year immediately preceding an application made pursuant to section 9 of the Act.

This program is designed to meet the special needs of the Island's small business community and entrepreneurs for business acquisitions, expansions and debt consolidation.

Agriculture

Definition—Agriculture includes any person that:

- (i) carries on business, or intends to carry on business, in the province,
- (ii) owns or will acquire farm assets with the loan proceeds pursuant to the Act or the regulations, and
- (iii) is actively engaged in farming or intends to work actively at producing farm products.

It is the objective of the Agency to encourage increased production of both established and new variety agricultural products, as well as improved marketing facets and techniques for P.E.I. agricultural products. This may include better storage, handling, grading and packaging facilities.

Tourism

Definition—Tourism includes any person that:

- (i) carries on business, or intends to carry on business, in the province, and
- (ii) operates a business, other than a Bed and Breakfast establishment as defined in the *Tourism Industry Act Regulations* (EC267/99), that holds a valid tourism establishment licence issued pursuant to the *Tourism Industry Act Regulations*.

Projects to expand the shoulder tourist season and development of integrated recreational complexes which would feature entertainment facilities, lodging and dining facilities are encouraged. In some cases, loans may be granted for accommodation units which are converted to other uses during off-season periods.

This program is designed to meet the special needs of Island tourism operators for business acquisitions, expansions and debt consolidation, refurbishment of fixed assets and in some cases working capital for seasonal start-up.

Bed and Breakfast operations, as defined by the *Tourism Industry Act Regulations*, are ineligible to borrow from the Agency.

Manufacturing and Processing

Definition—Manufacturing and Processing includes any person that:

- (i) carries on business, or intends to carry on business, in the province, and
- (iii) operates a business which produces a product by mechanical method from a raw material that is altered to add value

Loans are available to finance land and buildings, specialized equipment, and in some cases, production inventory.

Fisheries/Aquaculture

Definition—Fisheries and Aquaculture includes any person that:

- (i) carries on business, or intends to carry on business, in the province, and
- (ii) is licensed or qualified to obtain a license or aquaculture permit issued by the Federal Department of Fisheries and Oceans, for any of the commercial fisheries or aquaculture industries in the province.

The objective of the Agency is to provide term financing, recapitalization and operating lines of credit to assist applicants in the commercial fishery and/or Aquaculture industry. The Agency takes a particular interest in supporting projects that have a potential commercial viability for under-exploited species of finfish, shellfish and sea plants.

Information Technology

Definition—Information Technology includes any person that:

- (i) carries on business, or intends to carry on business, in the province, and
- (ii) operates a business that derives at least 60 percent of revenue from software publishing; computer systems design and related services; the provision of on-line information services; or the manufacture of computer and peripheral equipment or related electronic components.

The objective of the Agency is to provide term financing and operating lines of credit to assist borrowers purchasing fixed assets and for production and marketing expenses.

Aerospace

Definition—Aerospace includes any person that:

- (i) carries on business or intends to carry on business in the province,
- (ii) owns or will acquire assets of an aviation or aerospace-related business with loan proceeds received pursuant to the Act or the regulations, and
- (iii) is actively engaged in or intends to work actively in an aviation or aerospace-related business.

Year in Review

The Agency's mandate requires it operate, over a 3-5 year average, on a break-even basis. In 11 of its 13 years of operation, the Agency has reported a profit, offsetting the other two years of losses and reporting an overall net income from operations of slightly more than \$1.3 million. In so doing, the mandate has been achieved. This has not been an easy task given the fact that the Agency is a government lender. As such, loans are often developmental or higher risk than would be supported at conventional banks and with the inevitable result of a higher level of losses.

Since incorporation in 1998, the Agency has experienced a significant dollar increase in the loan portfolio as well as in the number of borrowers it serves. In 1998, there were 521 borrowing clients, representing a loan portfolio of \$90.6 million. By March 31, 2011, this number had grown to 837 clients, and the portfolio to slightly more than \$208.5 million.

The year end outstanding dollar figure for this fiscal is also an increase over last year, by \$18 million. The largest growth, by approximately \$9 million, occurred in the fisheries portfolio. This increase can be partially attributed to the reintroduction of the Low Interest Loan Program for Fishers. During the period under review, a further 100 fishers received assistance under this program, bringing the total number of borrowers to just under 250 in the program. Under the LILP, eligible borrowers can receive loans of up to \$200,000, at an interest rate of 4%, and for a 5 year term. Loans under this program are for the purpose of debt consolidation, and only for fishing related assets. Though initiated by the Department of Fisheries, all facets of program administration are managed by the Agency. In addition to these numbers, there were 300 plus borrowers also at year's end in the fisheries portfolio with loans that were provided at conventional rates. In total, the fisheries portfolio amounted to just over \$84 million.

In addition to the conventional loans provided by Agency staff, they also administer a number of Energy Efficiency Loan Programs and an Alternative Heating Loan Program for the Office of Energy Efficiency. Loans under these programs are provided in an effort to make homes more energy efficient and to support the installation of renewable energy equipment. Application and management of this program is the responsibility of the Office of Energy Efficiency, with specific administration, funding and accounting aspects handled by Agency staff. At year end there were 2,037 borrowing clients and \$5 million outstanding for these specific loan programs.

The Agency's loan arrears for the entire portfolio decreased year over year by nearly \$5 million. Loans in the non-current category increased slightly from \$24 million to \$24.6 million. Non current loans are ones that are in arrears in excess of 120 days or where, in the Agency's opinion, there is no longer a reasonable expectation that collection of the full amount of the principal and interest will be realized. The fisheries portfolio would be responsible for \$16.5 million of this amount, and primarily as a result of loans provided to snow crab fishers.

The 2011 Income Statement, on a line by line basis, should be fairly self explanatory. While the Agency realized a net income of \$390,451, this was due largely in part to a savings in its projected need for loan loss provision. However, the following items may have a noticeable variance and require comment:

Grant From the Province -The Agency has historically received a grant from the province which is used to supplement any revenues generated from operations and is used to offset operational costs. The amount received from the province was reduced to \$782,400 for fiscal year end March 31, 2011.

Alternative Energy Loan - This line item represents the interest revenue generated via the various energy loans, administered by the Agency on behalf of the Department of Environment, Energy & Forestry. Interest income is recorded separately and is retained by the Agency to offset the administrative expenses associated in administering same.

Interest from Borrowers - Decrease of 2% (\$202,870) from projections. For budget purposes, the Agency calculates its interest revenue based on the existing portfolio as at the end of December (Q3). There is no allowance made for growth in the portfolio for revenue income or interest expense. Therefore, any increase in the loan portfolio has a positive impact on the Agency's revenue budget forecasts. The revenue decrease is mainly attributed to the existing fisheries clients, whose loans were converted under the Low Interest Loan Program in 2010.

Prepayment Interest - A penalty collected from borrowers who retire their loan(s) prior to maturity. This is a standard penalty levied by all financial institutions.

Service Fees - An application fee of $\frac{1}{2}$ of 1% of the loan amount is levied toward any new applications received or renewals processed by the Agency. During 10/11, the amount of \$59,299 or a 22% increase to the budgeted total is attributed to the approximately \$28 million in loans approved and funded during this fiscal period.

Post Receivership Income - This represents the income received for loans which have been previously written off. For fiscal ending March 31/11, the \$25,008 was the result of a \$23,000 collection on a fisheries loan, and the balance for a handful of smaller loans provided under the Energy Loan Program.

The Agency has historically lived within its approved budget, as is the case for fiscal 10/11. All expense line items are within budget, with the exception of two significant variances.

Interest - Represents the interest expense incurred and paid by the Agency, on its borrowings from the Province. This expense is offset by the revenue which it generated by the Agency, from its clients. The increase to this interest expense over the budgeted total was directly related to a new long term debenture issued after the 2010/11 budget was finalized.

For the benefit of Treasury Board, the Agency presently funds any fixed term loan advances, approved throughout the year, initially through the collection of existing client loan payments and short term funds borrowed through Provincial Treasury. The Agency generally levies an interest spread of 2.75%, between the rate it borrows funds from the Province and the rate it charges to its clients. The purpose of the rate spread is to help mitigate potential losses that can occur as a result of interest rate fluctuations during market volatility.

The Agency makes every attempt toward "matching" the loans to its clients with the funds it borrows from the Province. When the Agency enters into a long term loan agreement with a borrower, typically for a 5 year rate and term, the Agency funds these loans initially from either cash flow or short term funds advanced from Treasury. At year end, the Agency then locks those short term borrowings into a 5 year rate and term with Provincial Treasury. By doing this, the affect of any interest rate fluctuations caused by market swings are minimized.

Provision for loan loss - As a major part of the budget process, the Agency establishes annually, an amount for possible loan losses based on the existing loan portfolio. This allowance is based on management's judgement, by sector,

whereby adverse economic trends suggest a loss may occur, but where such losses cannot yet be determined.

For fiscal ending March 31/11, the Agency established a loan loss provision of \$4,619,150 and while historically the Agency does not deviate from its forecasted expenditures, if there are unforeseen expenses, it is the provision for loss expense that is adjusted in order to maintain status quo. Due to an increase in interest payable to the province and a decrease

to interest revenue received from our clients, the Agency's actual provision for loss for fiscal 2010-2011 was decreased to \$4,086,815.

Overall, the PEI Lending Agency continues to operate as a financially responsible crown committed to assisting Island businesses. It continues to provide an essential service that, without, many of our borrowers would not be able to access the capital needed for sustainability and growth.

Tourism

Applications:			Sector Loans:		
21	Received	\$14,819,000	47	Outstanding	\$28,716,898
13	Approved	\$4,967,474	2	In Arrears	\$74,377

Tourism continues to play a major role in the economy of PEI with the prime season beginning in June and extending well into September. The Island is well known for its hospitality and as a family vacation destination offering sandy beaches, clean oceans for swimming, great entertainment and numerous local festivals and events.

With a general easing of the economic problems, experienced worldwide over the past number of years, the Island's tourism sector has also seen a gradual positive turn around in activity. This activity increase was welcome news for many seasonal operators who've endured several years of either flat or negative growth. In addition to the impact of economic improvement, there appears to be an increase in spending as a result of several other factors as well.



Larger events such as the Cavendish Beach Music Festival, launched in 2009, along with other major one time events such as the taping of the Kelly & Regis television program in the summer of 2010, favorably promoted PEI as a vacation destination. They've proven economically beneficial to local businesses and heightened worldwide awareness of our location.

The repeat of larger local festivals and events such as Old Home Week, Summerside Lobster Carnival and the Seafood Festival play an integral part in return visitation. Ongoing live theater at the Confederation Center of the Arts, Harbourside Theater, and Victoria Playhouse, and musical performances at the Indian River Festival all contribute to attracting visitors to the Island throughout the summer.

The turnaround in the Tourism sector in the last several years has contributed to increased demand for both fixed roof accommodations and camping facilities and many operators have begun to reinvest in their operations by either upgrading or expanding. This accounts for a large part of the increase we have seen in our loan activity during 2010.

The tourism loan portfolio continues to show some growth in dollar volumes, although the number of borrowers has increased only nominally. With only two loans in arrears at year end, the portfolio is in relatively good shape going into the next year.

Small Business

Applications:			Sector Loans:		
27	Received	\$11,727,010	78	Outstanding	\$22,064,206
16	Approved	\$8,705,010	6	In Arrears	\$329,656

The Agency's small business portfolio is comprised of quite a variety of enterprises. Businesses that wouldn't qualify within any of the other specific sectors of the Agency's portfolio, would generally be classified as small business. Loans provided to borrowers in this category are often unable to access financing from chartered banks and credit unions that fit the individual needs of their establishments. Financing to these borrowers are of a capital nature for the acquisition, renovations or expansion of real property assets. Working capital loans are not provided, by the Agency, to businesses within this sector.



Clients are typically local owner/operator businesses, servicing a local clientele. While not totally immune to global trading issues and economic swings, the severity of these fluctuations continue to be mitigated through stimulus money, provided by both levels of government. Projects financed by the Agency in this sector during 2010/11 were as small and as diverse as providing capital for specialized equipment for the automotive industry, to mortgage financing for a large transportation service company, and to cash dispensing machines.

For the year under review, there was an increase in the number of applications received and processed by the Agency, compared to the previous year, though the dollar amount requested was 32% lower. The number of approvals is only up nominally over last year, indicating some requests did not meet our lending criteria.

Manufacturing and Processing

Applications:			Sector Loans:		
7	Received	\$790,000		35	Outstanding \$17,833,741
4	Approved	\$140,000		4	In Arrears \$173,852

Like small business, the Agency's manufacturing and processing portfolio includes quite a diversity of businesses. Examples include furniture, fixture and equipment manufacturing, food and wood processing and metal and machine fabricating. Both capital and working capital loans are available to qualified borrowers.

This sector of the Agency's portfolio is not as large as those for the three primary industries on PEI (farming, fishing and tourism). The lower interest rates available to manufacturing and processing businesses, through Innovation PEI, has resulted in little growth to the Agency's portfolio. Agency staff also saw a reduction in new investment beginning at the downturn of the economy. Most operators have been content to maintain the "status quo".



The year under review has been relatively uneventful with only seven new requests and only four actual approvals. A very small number of borrowers account for approximately 75% of the total dollar value of this portfolio. The net result is an average loan amount, for the remainder of the portfolio (the smaller accounts), being at approximately \$130,000. Overall, the portfolio remains in relatively good shape with minimal delinquency problems.

Fisheries

Applications:			Sector Loans:		
136	Received	\$19,453,278		527	Outstanding \$84,591,289
113	Approved	\$13,888,278		164	In Arrears \$21,779,972

The fisheries sector remains the largest sector of the Agency's lending portfolio from both a numbers and dollars perspective. At fiscal year end March 31, 2011, the fisheries portfolio had an outstanding balance in excess of \$84 million dollars. This is due, in large part, to a strong commitment on the part of government to assist this industry with financial difficulties over the past few years.

The 2010 commercial lobster season on Prince Edward Island saw little improvement in price over the previous year. Shore prices varied through much of the 2010, with a seasonal start much the same as in 2009, with canners



selling between \$2.75 - \$3.00 per pound and market lobster between \$3.25 - \$3.50. While the price for canners remained relatively stable as the season progressed, market lobster prices slowly increased half way through the season. Though helpful, lobster catches often decline in the latter part of the season, and did this season as well. Therefore many did not benefit as you might expect from this price increase. Overall, the seasonal average was \$3.37 per pound.

Lobster landings increased 4% over the previous year, with 23.8 million pounds landed. In fact, all PEI fishing areas enjoyed year over year increases. Area 24, which is the north side, saw a slight increase of 1%; Area 26A, being the south side, saw a 3% increase and Area 25, being the fall fishery, experienced another big season with a 16% increase in landings. Area 25 also benefitted significantly by the retirement of 34 lobster licenses in March 2010. This area in particular has seen substantial increase in landings in the past 2 years.

Having witnessed the success of Area 25's lobster sustainability program and after experiencing two dismal lobster seasons, Area 26A fishers adapted their own restructuring plan in an effort to secure long term sustainability. Through a strategic partnership with the Department of Fisheries and Oceans, a trap reduction program was initiated. Each fisher in Area 26A agreed to remove 20 traps from their inventory and DFO also agreed to retire 25 licenses in March of 2011. \$200,000 was paid for each license retired as part of this sustainability program.

During this fiscal year, the Low Interest Loan Program was re-released to once again assist fishers that had experienced financial hardship due to increased operating costs, lower landings and a decrease in shore price. A need for reintroduction of the program was determined based on statistics of the previous year. The program provided for debt consolidation loans of up to \$200,000 on fishing related assets. The interest rate was set at 4% and gave recipients 5 years to repay. At March 31, 2011, 100 fishers had received assistance through the program this year. That brought the total number of fishers receiving low interest funds, under these programs, to just under 250. Revenue generated from the major fishing areas that comprise the local fishing industry include, lobster \$80,300,000, mussels \$25,000,000 and oysters \$3,660,000. Oyster revenues declined by 28% in 2010 from 2009; mussels enjoyed a slight increase of 5% and lobster revenue was up a generous 12% year over year.

As in the previous reporting year, the Agency's loan arrears to the fisheries portfolio is closely connected to the low shore price paid to fishermen. At fiscal year end 2011, the Agency had 164 clients, with payment arrears of \$4,132,000 on loans totaling \$21,779,972. This represents an increase of 3% from fiscal year end 2010. A large portion of the arrears, \$14,854,666, are for the loans provided to 7 Island snow crab fishermen. In 2005/06, when these loans were provided to develop opportunities for processing, there were serious concerns respecting the ability of the fishers to service this debt. These concerns became a reality, very quickly, with a significant drop in price in 2006. Followed by quota reductions in 2007 and 2008, these loans are now at a point of being unserviceable and market value of the security is well below the outstanding loan balances. While June/09 did see combined payments of \$752,000 on these loans, it made little headway toward reducing the total amount outstanding.

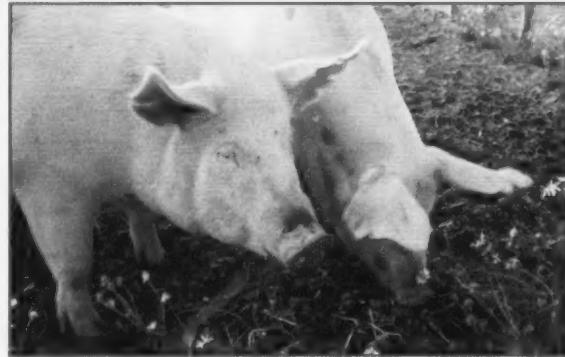
The Agency will continue to work through these troublesome files with the hope of arriving at a method of payment that can recoup government's investment.

Agriculture

Applications:			Sector Loans:		
29	Received	\$16,283,000		212	Outstanding \$42,167,449
18	Approved	\$8,583,000		50	In Arrears \$6,328,692

Agriculture is recognized by the Agency as being not only a business, but a very important and integral component of the rural way of life on Prince Edward Island.

According to the Department of Agriculture, 4.5 percent of the Island's population live on farms and this is 1.5 per cent higher than the national average. Based on the 2006 census, there are 1,700 Island farms that grow crops and raise livestock. The Agency undertakes to provide meaningful financial support for sound farm operations that require working capital loans for day to day expenses and term loans for capital purchases and debt restructure.



Accordingly, the agricultural portfolio represents 20 percent of the total loan portfolio, and ranks second only to fisheries in terms of number of clients and total loans outstanding. The majority of the Agency's agricultural clients farm potatoes, beef, hogs, and to a lesser but not exclusive degree, vegetables, dairy, blueberries, grains, cranberries, sheep, and organic grains.

A number of Island farms in the various sectors continue to struggle to embrace their financial position. As reported by Statistics Canada, Island farms experienced an additional decline in their equity in 2009. While the total value of Island farmers' assets increased by 2.3 per cent, the amount of farm liabilities increased by 4.7 percent. The equity ratio, which compares the value of equity to total assets, was 0.696. This is considerably less than the industry benchmark of 2:1 or higher preferred by most lending institutions.

The declining trend in equity was particularly notable during the past year, when the Agency received an increasing number of inquiries from farmers who had previously enjoyed long term relationships with their banker and were now being encouraged to find an alternative lender. In a number of cases, the bank was no longer willing to accept the farm's deteriorating financial situation. This was most noticeable in the potato, beef and hog sectors where there has been a serious erosion of the equity due to an accumulation of losses. Despite the time and effort put forth by Agency staff trying to find ways to bring financial stability to these operations, in some cases the level of debt was beyond manageable and these requests never reached the application stage. In the majority of these cases, it is a combination of poor commodity prices and rising input costs such as fertilizer and fuel that are contributing to these losses.

In 2010, farmers grew approximately 84,500 acres of potatoes, a 3% reduction from the crop of 2009. Roughly 60% of the Island's potatoes are grown under contract for processing, approximately 30% for the fresh open market, and the remaining 10 % for seed. The growing season got off to an early start of nearly 2 weeks and with the good growing conditions experienced in July, growers were optimistic that they would be rewarded with a bumper crop. However, hotter than average temperatures in August

slowed potato growth resulting in average results. Favorable weather patterns continued throughout the remainder of the growing and harvesting season, a welcomed change from conditions in 2009 when approximately 3,000 acres were left in the field due to wet weather.

At the outset open market growers and exporters were relatively optimistic as natural disasters, such as drought and flooding, affected supply in large potato producing areas in Idaho and Russia. Demand, however, was not as brisk as hoped and for some time difficulty was experienced by many in moving the crop at the profitable prices earlier forecast. By late winter, growers continued to find it challenging to obtain the \$0.20 per pound, despite earlier predictions of \$0.30/lb. Overall, sales of open market potatoes to Canadian markets were less than the previous year's and utilization of on-Island processing was down. Despite this domestic situation, the yield losses in Russia, Europe and parts of the United States compensated and shipments to these areas were relatively strong approaching the summer of 2011.

Processing growers experienced an average year in terms of yields and quality. Overall potato storage held up better than last, although some growers are still finding problems as they empty their bins. Island growers have been endeavoring to fight off the growing presence of wireworm, and again in 2010, the occurrences of this pest increased again, and a number of growers hauled out a large block of product infested with wireworm prior to the crop insurance deadline of March 30th. A further setback due to push back in contract delivery dates to the Island's processing plants and the closure of the Cavendish Farms for several days resulted in some cases to delayed sales and serious cash flow issues for the grower.

The 2011 potato crop is once again expected to see some reduction in acreage. Cavendish Farms has reduced the volume of potatoes contracted from its growers by approximately 5,000 acres, and is expected to impact total acreage. The planting season is also off to a wet, cold start, and planting is expected to be completed later than usual. While it is too early to predict open market prices, growers at year's end were attempting to negotiate a better price for contracted produce.

Beef numbers on Prince Edward Island, in both the cow calf and feed lot sectors, have been declining steadily over the past decade. According to Statistics Canada, since 2005 the number of beef cows fell by 30 per cent from 15,200 animals to approximately 10,700 head. Similarly, the number of steers, one year and over, declined by 50 per cent, down from 16,000 animals in 2005, to 9,000 in 2010. During the past year, several herds were liquidated due to prolonged poor margins, caused by low prices and high feed costs.

The capacity for feedlot operations decreased year over year as more beef farmers preferred to sell feeders to Quebec. A number of Island beef farmers have resorted to backgrounding whereby they feed cattle specifically for farmers from other provinces such as Quebec and Ontario. When the animals reach approximately 1,000 pounds, they are then shipped to the feedlot. This is becoming a problem for the Island's beef plant, which has had difficulty in sourcing enough finished cattle.

On a positive note, a much awaited and much needed increase in beef prices occurred in the Fall of 2010. Spurred by an increase in demand from export markets, it was expected prices would exceed the \$2.00 per pound mark. By the Spring of 2011 however, in response to a \$0.10 drop in the finished price,

feeder prices stabilized downward. This slow down in prices was brought about by the high Canadian dollar and US beef being shipped into Canada at rock bottom prices. Due to the competition from imported product, Canadian packers resorted to lowering their prices to remain viable. Although prices did not stay high for a great deal of time, the increase was long enough to have improved profit margins for some operators. It is not expected that over the course of the next several months prices will fall to averages endured over the past decade.

The fate of the Island's industry lies to a large extent, on how high the price of grain and corn reaches, and to the future of the Atlantic Beef Plant. It has concentrated it's efforts on securing a local market and has acquired a number of extremely loyal customers. With volumes starting to grow, the plant needs the assurance of the availability of cattle. However, the Island's beef farmers remained concerned about how they can repay monies borrowed under the Advance Payment Program while prices remain low. While some of the other provinces have developed measures to see these loans termed out, the Island's beef farmers have been unable to show little, if any, net reduction in these loans.

The Island's hog industry has seen a trend similar to what is being experienced across North America, with the loss of small diversified family run farm to a change over to the larger specialized operations. Volatile pork prices, increasing feed costs, transportation and other input costs have continued to plague the industry forcing the majority of those producers out of the production, and to exit the industry. This exit was softened, financially, with the introduction of the Hog Transition Program, which was offered through the province's Department of Agriculture in 2007/08, where we now have approximately 25 producers, down from 180 in 2003. Of these, approximately 50 % are considered small and ship approximately 200 to 500 hogs per year, 10 % are of medium size and ship approximately 500 to 1,000 hogs annually, 25% are larger operations shipping 1,000 to 4,000 hogs per year, and the remaining 15% are commercial operations that ship between 4,000 and 30,000 hogs per year.

Prices for Canadian market hogs have historically been influenced by the US, the Canadian dollar, and the distance to the marketplace. Since November 2010, the price has been steadily increasing from approximately \$1.20/kg to an average price of approximately \$1.65/kg at year's end. The cost of production, meanwhile, for market hogs on Prince Edward Island ranges from \$1.40 to \$1.70/kg. Historically, feed costs have been the single greatest factor in the cost of production for hogs and is currently estimated to represent approximately 60% of production costs. Transportation, presently averaging \$11.50 to \$14.00 per hog to Quebec, and rising energy costs also contributes significantly to increased production. With the closure of Garden Province Meats in 2007, and Larsen's in Nova Scotia in 2010, the majority of Island hogs are now shipped to plants in Quebec with a few still sold to small plants in Nova Scotia plants and local abattoirs.

Despite the decline in the hog farms over the past few years, PEI continues to rank among the top five Canadian hog breeding exporters and the fourth largest exporter of live breeding swine, among all Canadian provinces, in 2008 and 2009. It is anticipated, this will hold for 2010. PEI's share of the Canadian export market continues to grow in this area, almost doubling from 6.74% in 2008 to 11.95% in 2009. Being an Island has also afforded PEI a major competitive advantage in better disease control leading to improved herd health, and the introduction of product traceability which has helped to instill consumer confidence. There also exists a demand and consumer preference for organic products which are being fulfilled here in PEI. However, one of the major challenges facing producers is sourcing

organic feed. In addition, feed of this type is significantly more expensive than traditional conventional feeds adding even further to the cost of production.

The risk profile of the hog industry continues to be a concern and the Agency is selective and will continue to exercise caution when assessing credit applications from hog operators. Due to the challenges inherent in the industry, there has been little interest expressed from new entrants or in expansion from existing producers. In conjunction with the decline in numbers of producers, the Agency's exposure is moderate. Due diligence and commitment to support producers who face challenging decisions about the future of their farm is exercised by the Agency.

For 2010, blueberries proved to be a bumper crop on PEI, with production hitting 12 million pounds from its 125 growers. This is the highest crop ever recorded on PEI, with a 17% increase over the 2009 harvest. The lack of winter kill, good pollination from an adequate supply of bees, and ample summer rainfall, all contributed to the successful crop. This increase can also be attributed to the growing number of acres coming into production on PEI, which is expected to continue to increase the average crop in future years. Currently, there are 11,000 acres in production with the 2010 crop being harvested from 5,500 acres.

Prices rebounded in 2010 to an average of \$0.65 per pound, up from the \$0.35 received in 2009. This price was reflective of the crop failure in Quebec and Maine which resulted from frost in the blooming period, followed by dry weather through to the end of July. It is expected that the prices will remain consistent for the 2011 crop, however, it is still too early to make concrete projections.

The PEI cranberry industry, on the other hand, has seen slow growth since its start, with 16 growers and approximately 88 acres in production. The 2010 harvest saw 672,000 pounds produced, an increase of 12% over the 2009 harvest of 600,000 pounds. Prices in 2010 were extremely depressed with the growers receiving, on average, \$0.20 per pound. This was a decrease from the 2009 price of \$0.38, and well beyond the control of the cranberry growers. With the lower North American crop this year and reduced inventories, it is hoped that this will help with a price increase for 2011.

The PEI Cranberry Growers' Association are also exploring a couple of specialty-product options that may result in a greater return for their berries. In addition, a number of growers participated in a program in 2010 that allowed them access to practical, on-farm growing expertise through an experienced cranberry grower. Both initiatives are being conducted with the hope yields will show a noticeable improvement, resulting in increased revenues.

The Agency recognizes the contribution made by the agricultural sector and its importance to the economy of Prince Edward Island. Agency staff will continue to work with our agricultural clients and hope to assist those faced with production or marketing challenges for their product in future.

Aerospace

Applications:			Sector Loans:		
0	Received		2	Outstanding	\$12,485,657
			0	In Arrears	\$0

During the year under review, the Agency did not receive any requests for financial assistance from businesses within this sector. The two loans which are currently under administration, are up to date and continue to reduce as per their repayment schedules.

Support provided to this industry by the Agency in the 1990's and early 2000's has been replaced, in large part, by financing from other institutions. Corporate acquisitions of local companies, by large multinationals able to access capital through public traded funds, has also played a part in significantly reducing the size of the Agency's portfolio.



Information Technology

Applications:			Sector Loans:		
0	Received	\$19,453,278	0	Outstanding	\$0

There were, again, no applications received from the IT sector during the 2010/2011 year. Despite which, the Agency continues to maintain the products and tools necessary to provide loan assistance, should the need arise.



Bilan de l'année

Selon son mandat, l'Agence de prêt de l'Île-du-Prince-Édouard doit atteindre le seuil de rentabilité sur une moyenne de trois à cinq ans. L'Agence a rapporté un bénéfice pour 11 de ses 13 années d'exploitation, ce qui compense les 2 années de pertes et représente un revenu net global d'un peu plus de 1,3 million de dollars. Elle se conforme donc à son mandat, ce qui n'est pas une mince affaire pour un bailleur de fonds gouvernemental. En effet, l'Agence octroie souvent des prêts de développement ou associés à des risques plus élevés que ce qu'assument les banques traditionnelles, ce qui a inévitablement pour résultat d'entraîner des pertes accrues.

Depuis sa constitution, en 1998, l'Agence a connu une hausse importante de son portefeuille de prêts de même que du nombre de ses emprunteurs. En 1998, elle comptait 521 emprunteurs, pour un portefeuille de 90,6 millions de dollars; au 31 mars 2011, ils étaient 837, pour un portefeuille d'un peu plus de 208,5 millions.

Le solde impayé en fin d'exercice est également en hausse par rapport à l'exercice précédent (18 millions de dollars). La croissance la plus forte (environ 9 millions de dollars), a été enregistrée pour le portefeuille des pêches. Cette hausse est en partie attribuable au retour du Programme de prêt à intérêt réduit pour les pêcheurs. Au cours de la période ciblée, 100 pêcheurs supplémentaires ont reçu de l'aide dans le cadre de ce programme, portant le nombre total d'emprunteurs à un peu moins de 250. En vertu du Programme de prêt à intérêt réduit, les emprunteurs admissibles peuvent recevoir jusqu'à 200 000 \$, à un taux d'intérêt de 4 %, pour un terme de 5 ans. Les prêts octroyés dans le cadre de ce programme doivent exclusivement servir à consolider des dettes contractées pour des biens liés aux pêches. Bien que le Programme ait été mis en place par le ministère des Pêches, de l'Aquaculture et du Développement rural, l'Agence en assure toute l'administration. En plus des emprunteurs susmentionnés, le portefeuille des pêches

comptait en fin d'exercice plus de 300 clients bénéficiant de prêts à des taux réguliers. Ainsi, le portefeuille des pêches totalisait un peu plus de 84 millions de dollars.

En plus des prêts traditionnels octroyés par le personnel de l'Agence, celle-ci assure l'administration de programmes de prêts pour l'amélioration de l'efficacité énergétique et pour le recours à des sources d'énergie de remplacement pour l'Office de l'efficacité énergétique. Les prêts alloués dans le cadre de ces programmes visent à améliorer l'efficacité énergétique des résidences et à soutenir l'installation d'équipement de production d'énergie renouvelable. L'Office de l'efficacité énergétique est responsable de l'application et de la gestion de ce programme, mais le personnel de l'Agence se charge d'aspects particuliers liés à l'administration, au financement et à la comptabilité. En fin d'exercice, 2 037 emprunteurs, pour un solde impayé de 5 millions de dollars, figuraient dans les registres de ces programmes de prêts.

Les arriérés pour l'ensemble du portefeuille de l'Agence ont chuté de près de 5 millions de dollars par rapport à l'exercice précédent, tandis que les prêts dans la catégorie des créances à long terme ont légèrement augmenté, passant de 24 à 24,6 millions de dollars. Cette catégorie englobe les comptes en souffrance depuis plus de 120 jours, ainsi que les prêts pour lesquels l'Agence ne s'attend plus vraiment à recouvrer la totalité du montant et des intérêts courus. Le portefeuille des pêches est responsable de 16,5 millions de ce montant, principalement en raison des prêts consentis aux pêcheurs de crabe des neiges.

En ce qui concerne les états des résultats de 2011, la majorité des postes sont plutôt explicites. Bien que l'Agence ait enregistré un revenu net de 390 451 \$, il est en grande partie attribuable aux projections à la baisse relativement aux provisions pour pertes sur prêts. Toutefois, les écarts observés pour certains postes nécessitent quelques explications :

Subvention du gouvernement provincial – Habituellement, l'Agence reçoit du gouvernement provincial une subvention qui permet de compléter les revenus tirés de ses activités et de compenser les frais d'exploitation. Pour l'exercice qui s'est terminé le 31 mars 2011, cette subvention s'élevait à 782 400 \$, ce qui représente une baisse.

Prêts pour le recours à des sources d'énergie de remplacement – Il s'agit des revenus d'intérêts provenant des différents prêts en matière d'efficacité énergétique administrés par l'Agence pour le compte du ministère de l'Environnement, de l'Énergie et des Forêts. Ces revenus d'intérêts sont comptabilisés séparément et conservés par l'Agence pour compenser les dépenses liées à l'administration des divers programmes.

Intérêts payés sur les fonds empruntés – On a comptabilisé une baisse de 2 % (202 870 \$) par rapport aux projections. Pour des raisons budgétaires, l'Agence calcule ses revenus d'intérêts en fonction du portefeuille à la fin décembre (troisième trimestre). Il n'y a pas de provision pour croissance dans le portefeuille pour les revenus d'intérêts et intérêts engagés. Par conséquent, toute hausse dans le portefeuille des prêts a une incidence positive sur les revenus prévus de l'Agence. La baisse de revenus est principalement due aux emprunteurs du portefeuille des pêches, dont les prêts ont été convertis en 2010 en vertu du Programme de prêt à intérêt réduit.

Paiement anticipé des intérêts – Une pénalité est imposée aux emprunteurs qui remboursent leurs prêts avant la date d'échéance. Il s'agit d'une pénalité standard appliquée par toutes les institutions financières.

Frais administratifs – Des frais de demande de 0,5 % du montant du prêt sont exigés pour toutes les nouvelles demandes et tous les renouvellements traités par l'Agence. En 2010-2011, la somme de 59 299 \$ ou une hausse de 22 % du total prévu au budget est attribuable

aux quelque 28 millions de dollars en prêts approuvés et financés au cours de l'exercice.

Revenus provenant des mises sous séquestre – Il s'agit de fonds recueillis par l'Agence après une radiation. Des 25 008 \$ recueillis au cours de l'exercice qui s'est terminé le 31 mars 2011, 23 000 \$ provenaient d'un prêt du portefeuille des pêches, et le reste de prêts de moindre importance accordés dans le cadre du Programme de prêts pour l'efficacité énergétique.

L'Agence a toujours respecté le budget approuvé, et cela demeure le cas pour 2010-2011. Les postes de dépenses respectent tous le budget alloué, à l'exception de deux écarts d'importance.

Frais d'intérêts – Il s'agit des intérêts engagés et payés par l'Agence sur les fonds empruntés au gouvernement provincial. Ces frais sont compensés par les revenus d'intérêts sur les prêts que l'Agence consent à ses clients. La hausse des intérêts engagés et payés par rapport au total prévu est directement liée à une nouvelle obligation non garantie à long terme émise après l'établissement du budget pour l'exercice 2010-2011.

Il convient de préciser, à l'intention du Trésor de l'I.-P.-É., que l'Agence finance actuellement toute avance sur prêt à échéance déterminée approuvé en cours d'exercice en puisant dans les sommes remboursées sur les prêts consentis et dans les fonds à court terme empruntés au Trésor. L'écart fixé par l'Agence entre le taux des fonds empruntés au gouvernement provincial et le taux accordé à ses clients est habituellement de 2,75 %. Cet écart permet de limiter les pertes pouvant résulter des fluctuations des taux d'intérêt en période de volatilité des marchés.

L'Agence essaie dans la mesure du possible de faire concorder les prêts qu'elle consent à ses clients avec les fonds qu'elle emprunte au gouvernement provincial. Lorsque l'Agence conclut une entente avec un emprunteur pour un prêt à long terme, habituellement pour un

terme de 5 ans, elle finance initialement le prêt en puisant dans son flux de trésorerie ou dans les fonds empruntés au Trésor. À la fin de l'exercice, l'Agence prend entente avec le Trésor pour convertir ces emprunts à court terme en prêts sur 5 ans. Cette façon de faire permet de minimiser l'effet des fluctuations des taux d'intérêt pouvant résulter des variations sur les marchés.

Provisions pour pertes – Les provisions pour pertes sur prêts sont déterminées annuellement par l'Agence. Il s'agit d'un montant réservé pour des pertes possibles, compte tenu du portefeuille de prêts existant. C'est là un élément important du processus budgétaire. Ces provisions sont fondées sur le bon jugement de la direction, selon les secteurs, et sur les pertes possibles, telles qu'évaluées en fonction des tendances économiques, sans pouvoir être encore déterminées.

Les provisions pour pertes sur prêts prévues durant le processus budgétaire pour l'exercice qui a pris fin le 31 mars 2011 s'élevaient à 4 619 150 \$. Bien que, traditionnellement, l'Agence respecte les dépenses prévues, en cas de dépenses imprévues, on ajuste les provisions pour pertes afin de maintenir le statu quo. En raison d'une hausse des intérêts à payer au gouvernement provincial et d'une baisse des revenus d'intérêts versés par ses clients, les provisions pour pertes réelles de l'Agence ont chuté à 4 086 815 \$ pour l'exercice 2010-2011.

Dans l'ensemble, l'Agence continue d'être une société d'État financièrement responsable qui maintient son engagement à aider les entreprises de l'île. Elle continue d'offrir un service essentiel sans lequel bon nombre d'emprunteurs n'auraient pas accès aux fonds nécessaires pour assurer leur survie et leur croissance.

Tourisme

Demandes :		Prêts sectoriels :		
21	demandes reçues	14 819 000 \$	47	prêts en cours
13	demandes approuvées	4 967 474 \$	2	prêts ayant des arriérés

Le tourisme continue de jouer un rôle de premier plan dans l'économie de l'Île-du-Prince-Édouard, la saison forte commençant en juin, pour se terminer tard en septembre. L'île est bien connue pour son hospitalité et comme destination pour les vacances en famille, grâce à ses plages sablonneuses et à la clarté de ses eaux, fort appréciées des baigneurs, ainsi qu'aux nombreux festivals locaux et autres possibilités de divertissement.

Vu l'atténuation globale des problèmes économiques qui ont affecté la planète ces dernières années, le secteur touristique insulaire connaît lui aussi un redressement progressif de ses activités. Cette hausse des activités a été la bienvenue pour bon nombre d'exploitants saisonniers, après plusieurs années de croissance nulle ou négative. En plus de l'amélioration des conditions économiques, plusieurs autres facteurs semblent contribuer à une hausse des dépenses. Des manifestations d'envergure, comme le Festival de musique de Cavendish Beach, lancé en 2009, de même que des activités ponctuelles majeures, comme



l'enregistrement de l'émission *Live! With Regis and Kelly* à l'été 2010, ont bien fait la promotion de l'Île en tant que destination vacances. Elles se sont avérées profitables pour les entreprises locales sur le plan économique, en plus de nous faire connaître à l'échelle mondiale.

La tenue répétée d'activités et de festivals locaux de premier plan, tels que la foire agricole Old Home Week, le Summerside Lobster Carnival et le Seafood Festival, joue un rôle essentiel pour inciter les visiteurs à revenir. L'offre théâtrale constante au Centre des arts de la Confédération, au Harbourside Theater et au Victoria Playhouse ainsi que les prestations musicales à l'Indian River Festival contribuent à attirer les visiteurs dans l'Île tout l'été.

Ces dernières années, la reprise au sein du secteur touristique a favorisé une croissance de la demande pour l'hébergement en dur et pour les terrains de camping, ce qui a amené de nombreux exploitants à réinvestir dans leurs installations pour les rénover ou les agrandir. Ces activités représentent une bonne partie de la hausse des prêts constatée en 2010.

Le portefeuille de prêts du secteur touristique poursuit sa croissance sur le plan monétaire, quoique le nombre d'emprunteurs ait connu une hausse strictement théorique. La santé financière de ce portefeuille demeure relativement bonne, car seulement deux comptes affichaient des arriérés à la fin de l'exercice.

Petites Enterprises

Demandes :			Prêts sectoriels :		
27	demandes reçues	11 727 010 \$	78	prêts en cours	\$22,064,206
16	demandes approuvées	8 705 010 \$	6	prêts ayant des arriérés	\$329,656

Le portefeuille des petites entreprises est composé d'un large éventail de clients. Les entreprises qui ne correspondent pas aux critères des autres secteurs d'activités de l'Agence sont généralement classées comme des petites entreprises. Les emprunteurs de cette catégorie sont souvent incapables d'accéder à un financement répondant à leurs besoins individuels auprès des banques à charte et coopératives de crédit. Le financement octroyé à ces emprunteurs est essentiel à l'acquisition, à la rénovation ou à l'expansion de biens immobiliers. L'Agence n'octroie aucun prêt pour fonds de roulement aux entreprises de ce secteur.



Les emprunteurs sont généralement les propriétaires ou exploitants locaux d'entreprises dont la clientèle est aussi locale. Bien qu'elles ne soient pas entièrement à l'abri des difficultés commerciales et fluctuations économiques mondiales, l'ampleur de ces fluctuations continue d'être tempérée par les sommes injectées par les deux ordres de gouvernement pour stimuler l'économie. En 2010-2011, les projets financés par l'Agence dans ce secteur étaient diversifiés et allaient du simple financement pour l'achat d'équipement spécialisé dans l'industrie automobile à un prêt hypothécaire pour une entreprise de transport de charges de grandes dimensions et aux distributeurs automatiques de billets.

Pendant l'exercice ciblé, on a enregistré une hausse du nombre de demandes reçues et traitées par l'Agence comparativement à l'exercice précédent, mais le montant des demandes comme tel a chuté de 32 %. Le nombre de demandes approuvées a connu une croissance strictement théorique par rapport à l'exercice précédent, ce qui montre que certaines demandes ne satisfaisaient pas aux critères d'octroi des prêts.

Fabrication et Transformation

Demandes :			Prêts sectoriels :		
7	demandes reçues	790 000 \$	35	prêts en cours	17 833 741 \$
4	demandes approuvées	140 000 \$	4	prêts ayant des arriérés	173 852 \$

Comme c'est le cas pour le portefeuille des petites entreprises de l'Agence, celui du secteur de la fabrication et de la transformation englobe tout un éventail d'entreprises, œuvrant entre autres dans la fabrication de mobilier, d'accessoires et d'équipement, dans la transformation des aliments et du bois ainsi que dans le traitement des métaux et la conception de machines. Les emprunteurs admissibles ont accès à des prêts pour immobilisations et pour fonds de roulement.

Ce portefeuille de l'Agence n'est pas aussi important que ceux des trois principales industries insulaires (agriculture, pêches et tourisme). Vu les taux d'intérêt inférieurs offerts aux entreprises de ce secteur par Innovation Î.-P.-É., le portefeuille de l'Agence a connu peu de croissance. Le personnel de l'Agence a en outre constaté une diminution des nouveaux investissements depuis le début du ralentissement économique. La plupart des exploitants sont satisfaits du statu quo.



L'exercice ciblé a été relativement calme, puisqu'on a reçu seulement sept nouvelles demandes, dont quatre ont été approuvées. Un très faible nombre d'emprunteurs constituent environ 75 % de la valeur du portefeuille. Cela a pour résultat que le montant moyen des prêts pour le reste du portefeuille (les comptes les plus petits) est de 130 000 \$ approximativement. Dans l'ensemble, la santé financière de ce portefeuille est relativement bonne, et les défauts de paiement sont rares.

Pêches

Demandes :			Prêts sectoriels :		
136	demandes reçues	19 453 278 \$	527	prêts en cours	84 591 289 \$
113	demandes approuvées	13 888 278 \$	164	prêts ayant des arriérés	21 779 972 \$

Le secteur des pêches demeure le plus important du portefeuille de prêts de l'Agence, tant du point de vue du nombre d'emprunteurs que de la valeur des prêts. À la fin de l'exercice qui s'est terminé le 31 mars 2011, le portefeuille des pêches de l'Agence présentait un solde impayé de plus de 84 millions de dollars, ce qui est en grande partie attribuable à l'engagement ferme du gouvernement envers cette industrie accablée par les difficultés financières au cours des dernières années.

À l'Île-du-Prince-Édouard, on n'a pas vraiment enregistré d'amélioration dans les prix du homard pour la saison commerciale 2010. Les prix au débarquement ont varié une bonne partie de 2010, après avoir été presque identiques à ceux de 2009 au début de la saison. Le homard de conserverie s'est vendu de 2,75 \$ à 3 \$ la livre, et le homard vivant de 3,25 \$ à 3,50 \$ la livre. Même si le prix pour le homard de conserverie est demeuré relativement stable pendant la saison, celui du homard vivant a peu à peu augmenté à partir de la mi-saison. Cela a été bénéfique, mais les prises baissent souvent dans la dernière partie de la saison, comme ce fut le cas cette saison. Donc, contrairement à ce qu'on pourrait supposer, bon nombre de pêcheurs n'ont pas profité de cette hausse des prix. La moyenne saisonnière a été de 3,37 \$ la livre.



Les débarquements de homard ont connu une hausse de 4 % par rapport à l'exercice précédent, à 23,8 millions de livres de homard. En fait, toutes les zones de pêche de l'Île ont profité d'une hausse comparativement à l'exercice précédent : la zone 24 (secteur nord) a connu une hausse de 1 %; dans la zone 26A (secteur sud), l'augmentation a été de 3 %; et la zone 25 (zone de pêche automnale) a vécu une autre grosse saison, avec une hausse de 16 % des débarquements. La zone 25 a aussi considérablement profité du retrait de 34 permis de pêche au homard en mars 2010. On a enregistré une hausse substantielle des débarquements dans cette zone au cours des deux dernières années.

Étant donné le succès remporté par le plan de viabilité de la pêche au homard de la zone 25, et après deux saisons lamentables, les pêcheurs de la zone 26A ont adopté leur propre plan de restructuration en vue d'assurer la viabilité à long terme des pêches. Par l'intermédiaire d'un partenariat stratégique avec le ministère des Pêches et des Océans, on a lancé un programme de réduction du nombre de casiers à homard. Chaque pêcheur de la zone 26A a accepté de retirer 20 de ses casiers, tandis que le ministère a convenu de retirer 25 permis en mars 2011. Ce programme de viabilité prévoyait le versement de 200 000 \$ pour chaque retrait de permis.

Au cours de l'exercice, on a relancé le Programme de prêt à intérêt réduit afin d'aider les pêcheurs ayant connu des difficultés financières en raison de la hausse des coûts d'exploitation, de la baisse des débarquements et de la diminution des prix au débarquement. On a établi la nécessité de relancer le Programme en fonction des statistiques pour l'exercice précédent. On a octroyé dans le cadre du Programme des prêts pouvant atteindre 200 000 \$ pour la consolidation de dettes contractées pour des biens liés aux pêches. Le taux d'intérêt était de 4 %, pour un terme de 5 ans. Au cours de l'exercice qui s'est terminé le 31 mars 2011, 100 pêcheurs ont obtenu de l'aide dans le cadre de ce programme, portant à un peu moins de 250 le nombre total de pêcheurs recevant des fonds à un taux d'intérêt réduit.

Les ventes générées dans les zones de pêche majeures de l'industrie locale englobent le homard, à 80 300 000 \$; les moules; à 25 000 000 \$; et les huîtres, à 3 660 000 \$. Comparativement à 2009, les revenus tirés des huîtres ont baissé de 28 %; ceux tirés des moules ont connu une légère hausse de 5 %; et ceux provenant du homard, une belle hausse de 12 %.

Comme pour l'exercice précédent, les arriérés du portefeuille des pêches sont étroitement liés à la faiblesse des prix offerts aux pêcheurs. À la fin de l'exercice 2011, les arriérés étaient répartis entre 164 clients et s'élevaient à 4 132 000 \$, pour des prêts totalisant 21 779 972 \$. Cela représente une hausse de 3 % par rapport à l'exercice 2010. Une bonne part de ces arriérés, soit 14 854 666 \$, sont attribuables à des prêts consentis à 7 pêcheurs de crabe des neiges. En 2005-2006, lorsqu'on a octroyé ces prêts en vue de créer des possibilités de transformation, la capacité des pêcheurs à les rembourser était une source importante de préoccupations. Vu la chute considérable des prix en 2006, ces préoccupations se sont très vite matérialisées. Étant donné la réduction des quotas en 2007 et en 2008, il est désormais peu probable que ces prêts soient remboursés, et la valeur marchande de la garantie est bien en deçà du solde des prêts. Bien que, en juin 2009, il y ait eu des versements combinés de 752 000 \$ pour ces prêts, c'est bien peu comparativement au montant en souffrance.

L'Agence poursuit ses efforts dans ces dossiers problématiques, et elle espère trouver une méthode de paiement qui permettra de récupérer l'investissement du gouvernement.

Agriculture

Demandes :			Prêts sectoriels :		
29	demandes reçues	16 283 000 \$	212	prêts en cours	42 167 449 \$
18	demandes approuvées	8 583 000 \$	50	prêts ayant des arriérés	6 328 692 \$

L'Agence reconnaît que, au-delà des considérations commerciales, le secteur de l'agriculture joue un rôle de première importance dans la vie rurale à l'Île-du-Prince-Édouard. D'après le ministère de l'Agriculture, 4,5 % de la population insulaire habite sur une exploitation agricole, un taux 1,5 % supérieur à la moyenne nationale. Selon le Recensement de 2006, l'Île compte 1 700 exploitations de culture et d'élevage. L'Agence fournit une aide financière significative aux exploitations agricoles saines qui ont besoin de prêts pour fonds de roulement afin de payer leurs dépenses quotidiennes et de prêts à échéance déterminée pour l'acquisition d'immobilisations et la restructuration de leur dette. Par conséquent, le portefeuille de l'agriculture représente 20 % de l'ensemble du portefeuille de prêts, au deuxième rang sur le plan du nombre d'emprunteurs et de la valeur des prêts en cours, le premier rang étant occupé par le portefeuille des pêches. La majorité des clients de l'Agence dans ce secteur sont producteurs de pommes de terre, de bovins et de porcs, et dans une moindre mesure, mais non exclusivement, de légumes, de lait, de bleuets, de céréales, de canneberges, de moutons et de céréales biologiques.



Un certain nombre d'exploitations agricoles œuvrant dans les différents secteurs d'activités continuent d'éprouver de la difficulté en raison de leur situation financière. Tel que rapporté par Statistique Canada, les exploitations agricoles de l'Île ont connu une autre baisse de leurs avoirs en 2009. Bien que la valeur globale des biens des agriculteurs de l'Île ait augmenté de 2,3 %, les dettes agricoles ont augmenté de 4,7 %. Le ratio avoirs/actifs, qui compare la valeur des avoirs au total des actifs, était de 0,696. C'est considérablement inférieur au point de référence pour l'industrie, soit un ratio d'au moins 2:1, qui est privilégié par la plupart des établissements de crédit.

La tendance à la baisse dans les avoirs a été particulièrement remarquable au cours du dernier exercice, pendant lequel l'Agence a reçu un nombre croissant de demandes d'information d'agriculteurs qu'on incitait fortement à trouver un autre prêteur, malgré des relations de longue date avec leur banque. Dans certains cas, la banque ne voulait plus accepter la détérioration de la situation financière de l'exploitation. On a surtout remarqué cette tendance dans les secteurs de la production de pommes de terre, de bovins et de porcs, où l'on a connu une érosion considérable des avoirs en raison d'une accumulation de pertes. Malgré le temps et les efforts investis par le personnel de l'Agence afin de trouver des façons de stabiliser ces exploitations sur le plan financier, dans certains cas, le niveau d'endettement était ingérable, et ces demandes d'information ne se sont jamais traduites en demandes de prêt. Dans la majorité de ces cas, les pertes sont attribuables à la faiblesse du prix des denrées et à la hausse du coût des intrants, comme l'engrais et le carburant.

En 2010, les agriculteurs ont cultivé environ 84 500 acres de pommes de terre, une diminution de 3 % par rapport à 2009. À peu près 60 % des pommes de terre de l'île sont cultivées sous contrat à des fins de transformation, 30 % sont destinées au marché public du frais, tandis que les 10 % qui restent sont cultivées comme semences. La saison a commencé près de deux semaines plus tôt que la normale et, vu les bonnes conditions de croissance observées en juillet, les agriculteurs étaient optimistes et s'attendaient à une récolte exceptionnelle. Par contre, le temps plus chaud que la moyenne en août a ralenti la croissance des pommes de terre, ce qui a entraîné des résultats moyens. Les conditions météorologiques ont continué d'être favorables le reste de la saison de croissance et de récolte, une situation qui était la bienvenue après la saison 2009, où environ 3 000 acres de pommes de terre étaient restées dans les champs en raison du temps humide.

Au départ, les producteurs et exportateurs visant les marchés publics étaient relativement optimistes, car des catastrophes naturelles, comme des sécheresses et inondations, affectaient l'offre dans de vastes zones de production de pommes de terre en Idaho et en Russie. La demande, par contre, n'a pas été aussi vigoureuse qu'escompté, et pendant un certain temps, beaucoup ont eu de la difficulté à écouler la récolte aux prix rentables initialement prévus. Vers la fin de l'hiver, des producteurs avaient encore du mal à obtenir 0,20 \$ la livre, malgré les prévisions initiales de 0,30 \$ la livre. Globalement, les ventes de pommes de terre destinées aux marchés publics au pays ont été moindres que l'exercice précédent, et le marché insulaire de la transformation était en baisse. Malgré tout, les pertes de rendement en Russie, en Europe et dans certaines régions des États-Unis ont compensé la situation au pays, et à l'approche de l'été 2011, les expéditions dans ces zones étaient relativement importantes.

Les producteurs de pommes de terre destinées à la transformation ont connu une année moyenne sur les plans du rendement et de la qualité. En général, l'entreposage a donné de meilleurs résultats que l'année précédente, mais certains producteurs ont continué d'éprouver des problèmes au fur et à mesure que la saison d'entreposage avançait. Les producteurs de l'île s'évertuent à lutter contre les larves de taupin, de plus en plus présentes. En 2010, ce ravageur a encore accru sa présence, et un certain nombre de producteurs ont retiré une quantité importante de produits infestés avant la date limite pour l'assurance-récolte, soit le 30 mars. Le report des dates de livraison aux usines de transformation insulaires prévues dans les contrats et la fermeture de l'usine de Cavendish Farms pendant plusieurs jours ont entraîné, pour certains producteurs, un retard dans les ventes et de graves problèmes de flux de trésorerie.

On s'attend à une réduction supplémentaire de la superficie en production en 2011. L'usine de Cavendish Farms a réduit d'environ 5 000 acres le volume de pommes de terre demandé à ses producteurs sous contrat, ce qui devrait influer sur la superficie totale en production. Comme le temps est humide et froid en ce début de saison, on s'attend à ce que l'ensemencement se fasse plus tard que la normale. Bien qu'il soit trop tôt pour prévoir le prix des pommes de terre destinées aux marchés publics, les producteurs sous contrat tentaient en fin d'exercice de négocier un meilleur prix.

À l'Île-du-Prince-Édouard, les statistiques relatives aux bovins, tant pour la production vache-veau que pour les parcs d'engraissement, connaissent une baisse régulière depuis une décennie. Selon Statistique Canada, le nombre de bovins de boucherie a chuté de 30 %, passant de 15 200 à quelque 10 700 têtes, depuis 2005. De même, le nombre de bouvillons d'un an ou plus a chuté de moitié, de 16 000 têtes en 2005 à 9 000 en 2010. Au cours du dernier exercice, plusieurs troupeaux ont été liquidés en raison de la persistance de marges médiocres engendrées par la faiblesse des prix et des coûts d'alimentation élevés.

La capacité des parcs d'engraissement a diminué par rapport à l'exercice précédent, un nombre accru d'agriculteurs préférant vendre leurs bovins d'engraissement au Québec. Un certain nombre d'éleveurs de bovins de l'Île se sont tournés vers le préengraissement, qui consiste à engrasser des bêtes expressément pour les agriculteurs d'autres provinces, telles que le Québec et l'Ontario. Quand les bêtes pèsent environ 1 000 livres, elles sont expédiées en parc d'engraissement. Cette situation devient problématique pour l'usine de transformation du bœuf de l'Île, qui éprouve des difficultés d'approvisionnement en bovins finis.

Sur une note plus positive, on a observé une hausse fort attendue et nécessaire des prix du bœuf à l'automne 2010. On s'attendait à ce que, stimulés par une hausse de la demande sur les marchés d'exportation, les prix dépassent la marque des 2 \$ la livre. Au printemps 2011, cependant, en réaction à une baisse de 0,10 \$ du prix des bovins finis, le prix des bovins d'engraissement s'est stabilisé à la baisse. Ce ralentissement dans la croissance des prix a été causé par la force du dollar canadien et l'arrivée au Canada de bœuf américain vendu à des prix extrêmement bas. Vu la concurrence générée par ces produits importés, les grossistes en viandes canadiens se sont résolus à baisser leurs prix afin de rester viables. Même si les prix ne sont pas restés élevés très longtemps, la hausse a duré suffisamment pour améliorer les marges de profit de certains exploitants. On ne s'attend pas à ce que les prix tombent aux niveaux enregistrés au cours de la dernière décennie dans les prochains mois.

Le sort de l'industrie à l'Île dépend en grande partie des prix qu'atteindront les céréales et le maïs et de l'avenir de l'usine d'Atlantic Beef Products. L'usine a axé ses efforts sur le marché local et développé une clientèle extrêmement fidèle. Comme les volumes commencent à augmenter, l'usine doit s'assurer de la disponibilité de bovins. Les éleveurs de bovins de l'Île demeurent toutefois préoccupés par leur capacité à rembourser les prêts octroyés en vertu du Programme de paiements anticipés, étant donné la faiblesse des prix. Alors que d'autres provinces ont pris des mesures afin de restructurer ces prêts, toute réduction nette, aussi petite soit-elle, semble exclue pour les producteurs de bovins de l'Île.

L'industrie porcine de l'Île est affectée par les mêmes tendances que le reste de l'Amérique du Nord, les petites exploitations familiales diversifiées perdant du terrain par rapport aux vastes exploitations spécialisées. La volatilité du prix des porcs et l'augmentation des coûts d'alimentation, de transport et d'autres intrants ont continué de miner l'industrie, obligeant la majorité des agriculteurs à abandonner

la production et à quitter l'industrie. La création du Programme de transition pour les exploitations porcines, offert par l'intermédiaire du ministère provincial de l'Agriculture en 2007-2008, a permis d'atténuer les répercussions financières de la cessation de ces activités. On compte maintenant quelque 25 producteurs, alors qu'ils étaient 180 en 2003. Parmi ceux-ci, environ la moitié sont considérés comme de petits producteurs expédiant de 200 à 500 porcs par année; 10 % sont de taille moyenne, pour une production annuelle de 500 à 1 000 porcs; 25 % constituent des exploitations plus vastes, expédiant de 1 000 à 4 000 porcs chaque année; et les 15 % restants sont des exploitations commerciales produisant de 4 000 à 30 000 porcs annuellement.

Le prix des porcs d'engraissement au Canada est traditionnellement influencé par le marché américain, le dollar canadien et la distance par rapport au marché. Depuis novembre 2010, les prix connaissent une croissance régulière; ils sont en effet passés de 1,20 \$ le kilogramme à un prix moyen de quelque 1,65 \$ le kilogramme en fin d'exercice. Dans l'intervalle, les coûts de production de porcs d'engraissement à l'Île-du-Prince-Édouard allaient de 1,40 \$ à 1,70 \$ le kilogramme. Habituellement, les coûts d'alimentation constituent le facteur le plus important dans les coûts de production porcine; on estime actuellement qu'ils représentent environ 60 % des coûts de production. Les coûts de transport, qui sont actuellement de 11,50 \$ à 14 \$ par porc en moyenne pour le transport au Québec, et la hausse des coûts d'énergie contribuent en outre de façon considérable à une augmentation des coûts de production. Avec la fermeture de Garden Province Meats, en 2007, et de Larsen's, en Nouvelle-Écosse, en 2010, la majorité des porcs produits à l'Île sont maintenant expédiés vers des usines québécoises, le reste des bêtes étant vendues à de petites usines néo-écossaises et à des abattoirs locaux.

Malgré le déclin des exploitations porcines au cours des dernières années, l'Île-du-Prince-Édouard figurait toujours parmi les cinq principaux exportateurs canadiens de porcs, et occupait le quatrième rang parmi les provinces exportatrices de porcs reproducteurs en 2008 et 2009. On s'attend à ce qu'il en soit de même en 2010. La part de l'Île-du-Prince-Édouard du marché canadien de l'exportation a continué de croître à ce niveau, ayant presque doublé de 2008 à 2009, passant de 6,74 % à 11,95 %. La nature insulaire de la province lui confère en outre un avantage concurrentiel majeur, puisqu'elle peut lutter plus efficacement contre la maladie. Les troupeaux sont donc plus sains, et l'introduction de mesures de traçabilité des produits a contribué à gagner la confiance des consommateurs. On constate également une demande pour des produits biologiques, une préférence qui est satisfaite ici, à l'Île-du-Prince-Édouard. Cela dit, les producteurs sont confrontés à un défi d'importance, soit l'approvisionnement en aliments biologiques. De plus, ces aliments coûtent beaucoup plus cher que les aliments traditionnels et, du coup, augmentent encore davantage les coûts de production.

Le profil de risque de l'industrie porcine est encore préoccupant. L'Agence est donc sélective et continue de faire preuve de prudence dans son évaluation des demandes de crédit des exploitants. Vu les difficultés inhérentes à l'industrie, peu de producteurs souhaitent se lancer dans l'industrie ou agrandir leur exploitation porcine. Compte tenu de la baisse du nombre de producteurs, la vulnérabilité de l'Agence est modérée. L'Agence fait preuve d'une diligence raisonnable et s'engage à soutenir les producteurs devant prendre des décisions difficiles quant à l'avenir de leur exploitation.

En 2010, la récolte de bleuets a été exceptionnelle à l'Île-du-Prince-Édouard, la production atteignant 12 millions de livres, pour 125 producteurs. Il s'agit de la plus belle récolte jamais enregistrée à l'Île, ainsi que d'une hausse de 17 % par rapport à celle de 2009. Le faible taux de destruction par l'hiver,

une bonne pollinisation grâce à une population adéquate d'abeilles et des précipitations estivales généreuses ont contribué à cette récolte abondante. Cette hausse peut aussi être attribuée à la croissance de la superficie en production, qui devrait continuer de favoriser l'amélioration de la récolte moyenne au cours des prochaines années. Actuellement, 11 000 acres sont en production, dont 5 500 ont été récoltées en 2010.

Les prix ont remonté en 2010 pour atteindre une moyenne de 0,65 \$ la livre, une hausse par rapport aux 0,35 \$ payés en 2009. Ces prix reflètent les mauvaises récoltes au Québec et dans le Maine, en raison du gel en période de floraison, puis du temps sec jusqu'à la fin juillet. On s'attend à ce que les prix demeurent stables pour la récolte 2011, mais il est encore trop tôt pour établir des projections concrètes.

L'industrie de la canneberge connaît en revanche une lente croissance depuis ses débuts, à peine 16 producteurs cultivant environ 88 acres. La récolte était de 672 000 livres en 2010, une hausse de 12 % par rapport aux 600 000 livres de 2009. Les prix étaient extrêmement bas en 2010, les producteurs ayant reçu 0,20 \$ la livre en moyenne. Il s'agissait d'une baisse par rapport aux prix en 2009 (0,38 \$), une situation tout à fait indépendante de la volonté des producteurs. On espère que la faible récolte nord-américaine et la réduction des stocks contribueront à faire monter les prix en 2011.

La PEI Cranberry Growers' Association étudie quelques options relativement aux produits spéciaux qui pourraient permettre d'obtenir davantage pour ces petits fruits. De plus, en 2010, un certain nombre de producteurs ont participé à un programme qui leur a permis d'accéder à un savoir-faire concret, sur place, offert par un producteur de canneberge d'expérience. On espère que ces deux initiatives engendreront une hausse manifeste du rendement, et donc des revenus.

L'Agence reconnaît la contribution du secteur agricole et son importance pour l'économie insulaire. Le personnel de l'Agence poursuivra sa collaboration avec ses clients du secteur et espère aider ceux qui éprouvent des difficultés sur le plan de la production ou de la commercialisation de leurs produits.

Aérospatiale

Demandes :		Prêts sectoriels :		
0	demande reçue	2	prêts en cours	12 485 657 \$
		0	prêt ayant des arriérés	0 \$

Au cours de l'exercice ciblé, l'Agence n'a reçu aucune demande d'aide financière d'entreprises du secteur. Les deux prêts actuellement en cours sont en règle, et leur solde continue de baisser au fil des paiements prévus.

Les prêts que l'Agence a versés à ce secteur dans les années 1990 et au début des années 2000 sont maintenant remplacés, en majeure partie, par de l'aide provenant d'autres institutions financières. L'acquisition d'entreprises locales par de grandes multinationales ayant accès à des capitaux publics a également joué un rôle dans la réduction considérable de la taille du portefeuille de l'Agence.



Technologie de l'information

Demandes :		Prêts sectoriels :		
0	demande reçue	\$19,453,278	0	Prêt en cours \$0

Encore une fois, l'Agence n'a reçu aucune demande du secteur de la technologie de l'information en cours d'exercice. Toutefois, l'Agence continue d'offrir les produits et les outils de financement nécessaires pour venir en aide à ce secteur si le besoin venait à se faire sentir.



Corporate Directory

Appendix A

As of March 31, 2011

Executive

Ivan Shreenan
Chairman

Barrie Harris
Vice-chairman

Peter A. Wilson*
Secretary-Treasurer and Chief Executive Officer

Members of the Board

Louise Arsenault
Howlan Road, PE

Louis Callaghan
Cardigan, PE

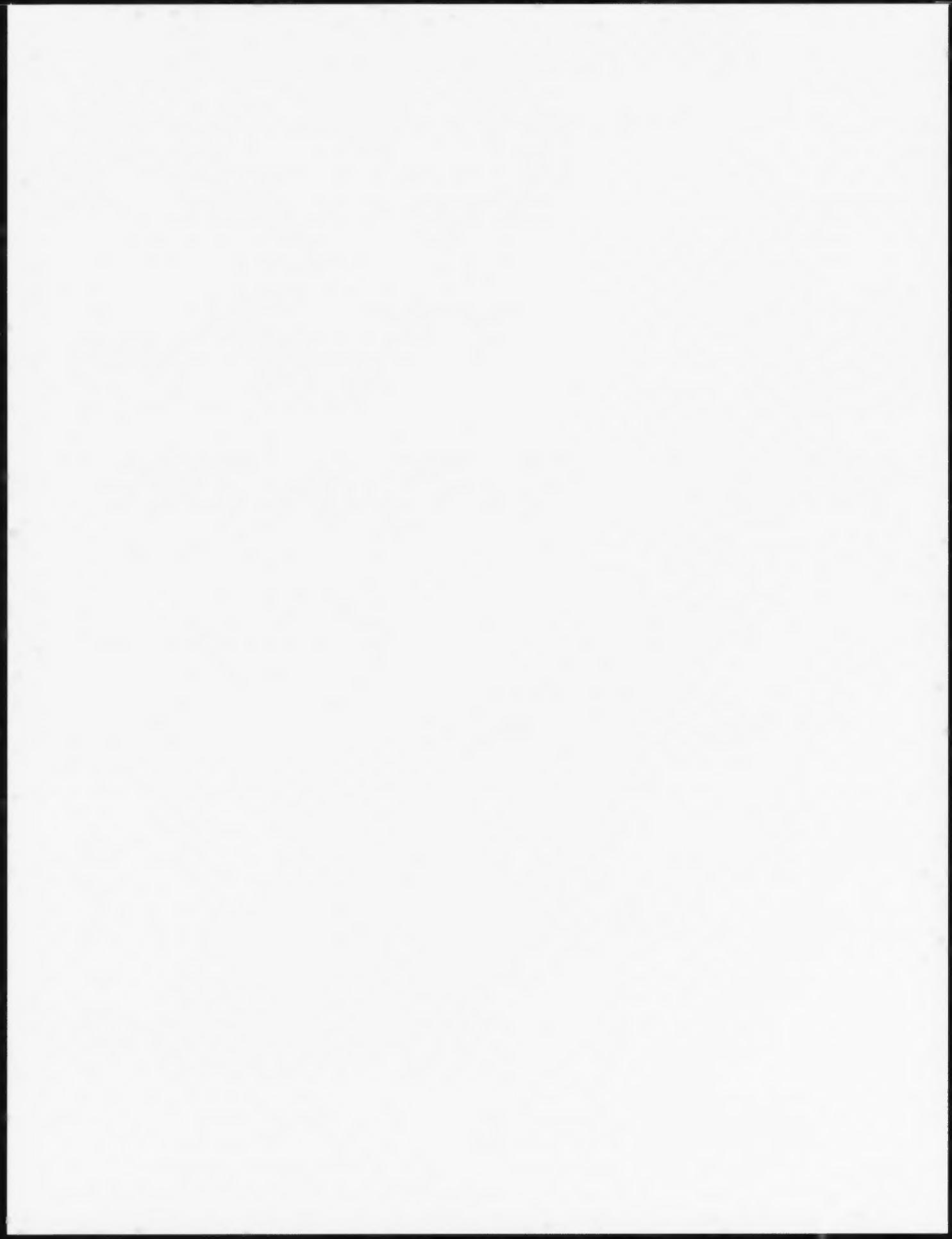
Louis McIsaac
Fairview, PE

Mamdouh Elgarib
Charlottetown, PE

Doug Clow
Deputy Minister
Department of Finance and Municipal Affairs

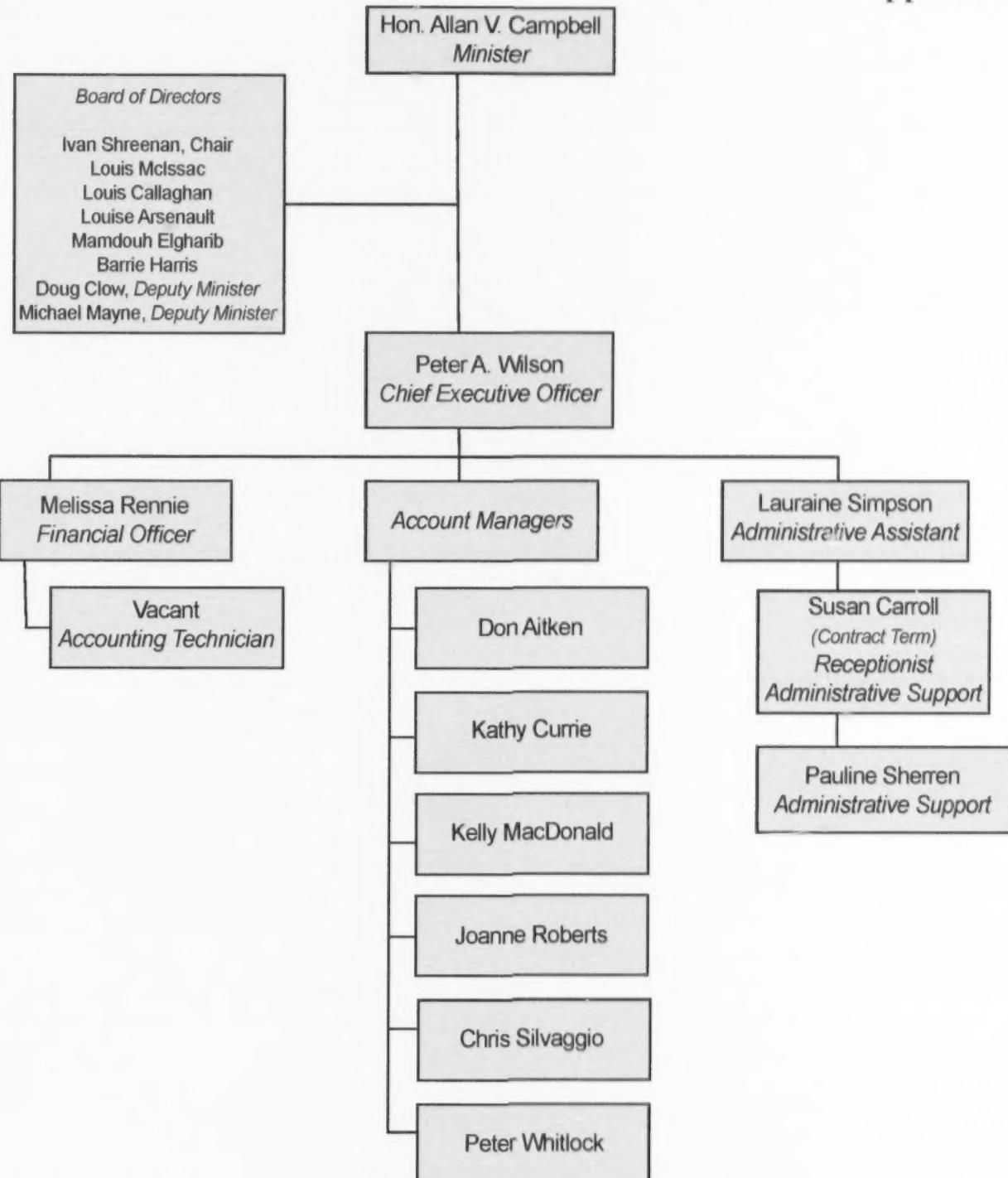
Dr. Michael Mayne
Deputy Minister
Department of Innovation and Advanced Learning

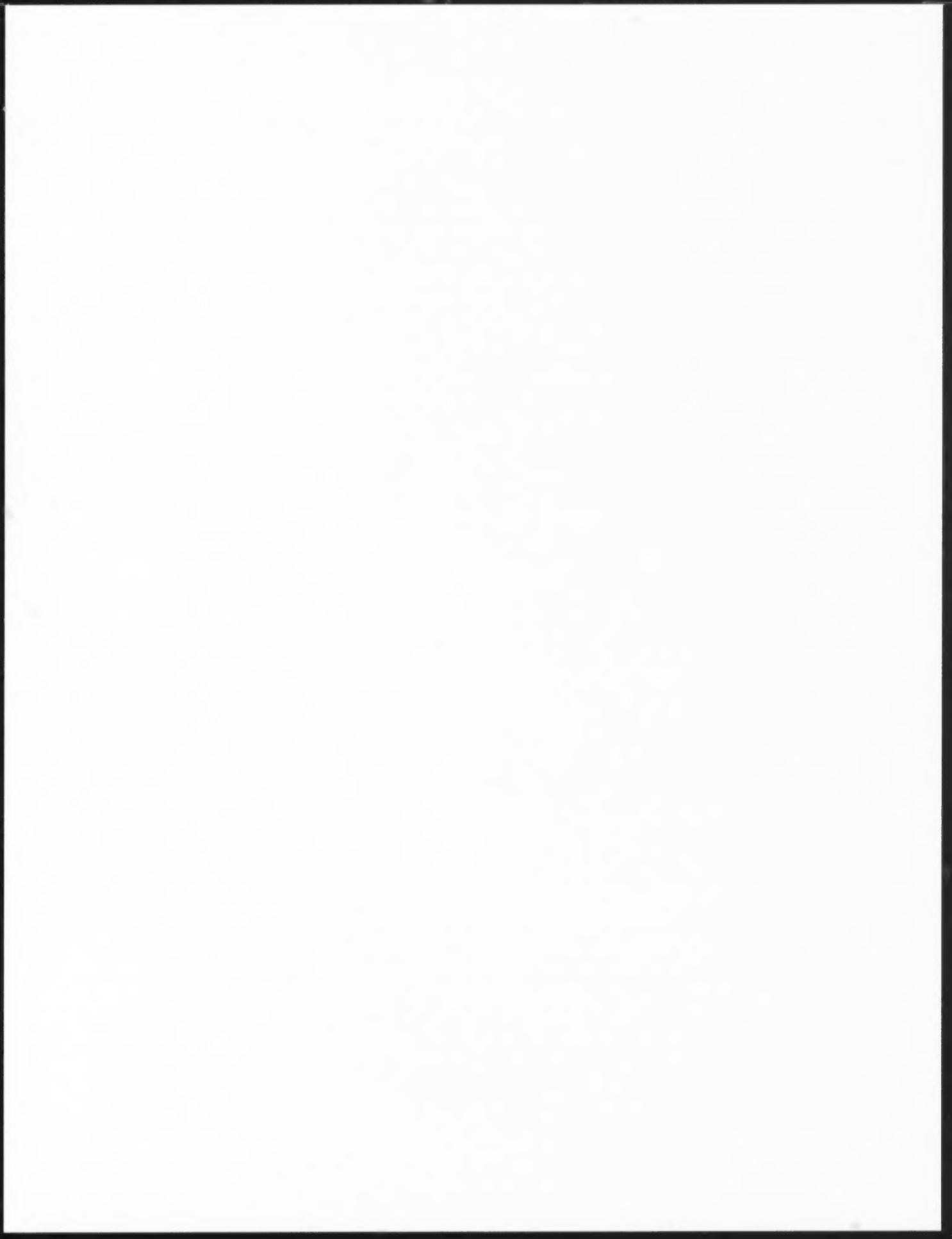
* Non-voting



Organizational Chart

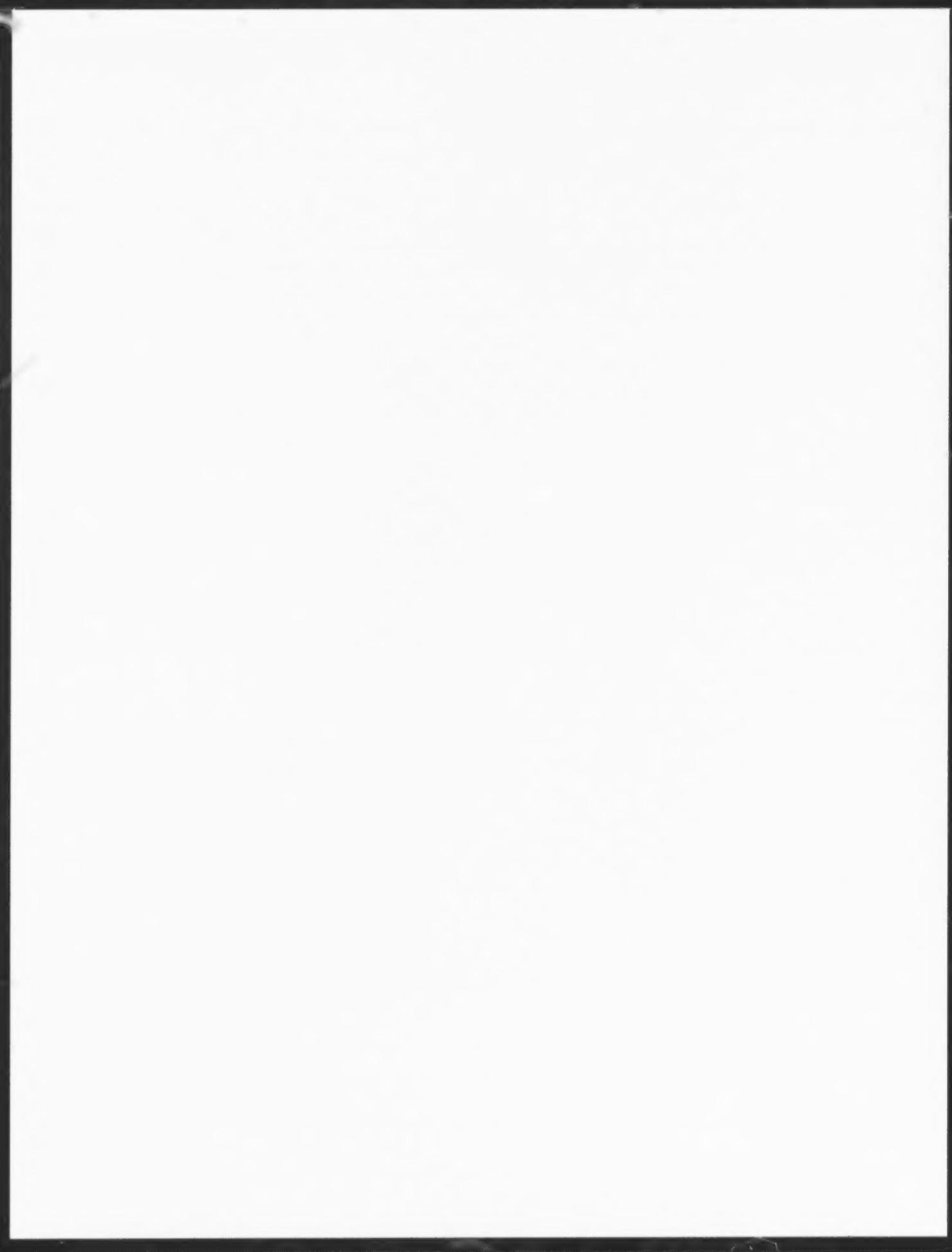
Appendix B





Auditor's Report

Appendix C



A Member Firm of The AC Group of Independent Accounting Firms Limited

Chartered Accountants &
Business Advisors
Prince Edward Place
80 Water Street
PO Box 455
Charlottetown, Prince Edward Island
Canada C1A 7L1
Telephone (902) 368-3100
Fax (902) 566-5074
www.acgca.ca

May 24, 2011

Auditor's Report

To the Board of Directors of P.E.I. Lending Agency

We have audited the accompanying financial statements of P.E.I. Lending Agency, which comprise the balance sheet as at March 31, 2011, and the statements of earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

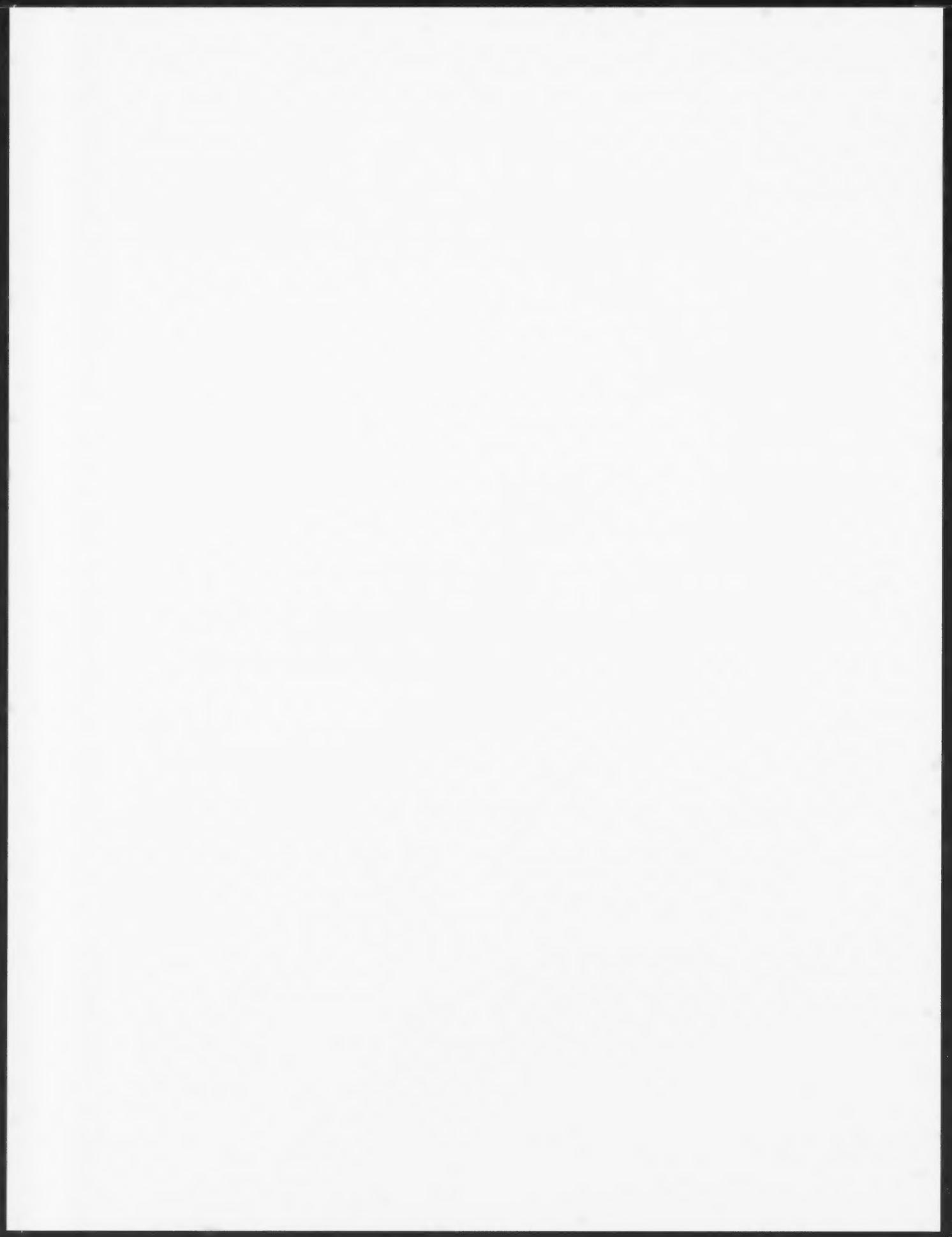
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of P.E.I. Lending Agency as at March 31, 2011, and the results of its operations and its cash flows for the year in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

(1)



Financial Statements

Appendix D



P.E.I. Lending Agency

Balance Sheet

As at March 31, 2011

	2011 \$	2010 \$
Assets		
Cash	620,817	498,207
Accounts receivable	439,509	2,446
Due from Province of Prince Edward Island (note 3)	-	1,000,000
Loans receivable (note 4)	174,362,011	158,133,173
Property holdings (note 5)	152,897	91,896
	<u>175,575,234</u>	<u>159,725,722</u>
Liabilities		
Accounts payable and accrued liabilities (note 9)	239,967	270,992
Due to Province of Prince Edward Island (note 3)	75,600	215,600
Notes payable (note 6)	<u>173,636,991</u>	<u>158,006,905</u>
	<u>173,952,558</u>	<u>158,493,497</u>
Contingent liabilities (note 7)		
Retained earnings		
Retained earnings - Beginning of year	1,232,225	1,089,804
Excess revenue for the year	390,451	142,421
Retained earnings - End of year	<u>1,622,676</u>	<u>1,232,225</u>
	<u>175,575,234</u>	<u>159,725,722</u>

Approved by the Board of Directors

John Shreeve Director

(2)

Lehman Director

AC ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

P.E.I. Lending Agency

Statement of Earnings

For the year ended March 31, 2011

		2011	2010
	Budgeted (Unaudited)	Actual \$	Actual \$
Revenue			
Grants from Province	782,400	782,400	1,823,600
Alternative energy loan fees	-	72,784	95,225
Interest from borrowers	10,370,000	10,167,130	9,949,112
Interest from deposits	25,000	33,806	27,674
Prepayment interest	-	20,582	171,421
Service fees	275,000	334,299	361,850
Post-receivership income	-	25,008	13,721
	<hr/> 11,452,400	<hr/> 11,436,009	<hr/> 12,442,603
Expenses			
Office supplies and printing	19,600	17,356	20,767
Telecommunications	10,000	10,507	10,041
Rent and occupancy	115,000	110,748	111,402
Meetings and hosted conferences	4,000	2,534	2,301
Furniture and computer equipment	11,000	2,618	10,239
Advertising and promotion	7,500	9,766	6,976
Office equipment rentals	7,000	3,511	6,210
Library and subscriptions	1,200	674	1,425
Insurance	-	10,925	9,675
Miscellaneous	10,500	7,098	5,762
Professional services	52,000	60,115	27,310
Salaries and benefits	859,150	873,868	901,302
Travel and training	40,200	25,450	19,838
Interest (note 9)	5,696,100	5,823,573	5,898,384
Provision for possible losses	4,619,150	4,086,815	5,268,550
	<hr/> 11,452,400	<hr/> 11,045,558	<hr/> 12,300,182
Excess revenue for the year		<hr/> - 390,451	<hr/> 142,421

(3)

P.E.I. Lending Agency
Statement of Cash Flows
For the year ended March 31, 2011

	2011	2010
	\$	\$
Cash provided by (used in)		
Operating activities		
Excess revenue for the year	390,451	142,421
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(437,062)	778
Decrease in accounts payable and accrued liabilities	(31,025)	(49,059)
Decrease (increase) in due from Province of Prince Edward Island - current operations	1,000,000	(1,000,000)
	<hr/>	<hr/>
	922,364	(905,860)
Financing activities		
Increase in loans receivable (net)	(16,228,836)	(10,729,846)
Increase in notes payable	27,499,500	38,450,000
Retirement of notes payable	(11,869,414)	(27,313,838)
Decrease in due to Province of Prince Edward Island - Alternative Heating loan program	(140,000)	(212,400)
	<hr/>	<hr/>
	(738,750)	193,916
Investing activities		
Additions to and purchases of property holdings	(83,416)	(109,659)
Reductions and proceeds on disposal of property holdings	22,300	312,354
Decrease in leased property (net)	112	257
	<hr/>	<hr/>
	(61,004)	202,952
Change in cash		
	122,610	(508,992)
Cash - Beginning of year	<hr/>	<hr/>
	498,207	1,007,199
Cash - End of year	<hr/>	<hr/>
	620,817	498,207
Supplementary disclosure		
Interest and dividends received	10,187,712	10,120,533
Interest paid	5,908,147	6,016,101

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2011

1 Status of the corporation

P.E.I. Lending Agency is a Crown corporation established by a proclamation of the Lending Agency Act dated December 31, 1998. The Agency's financial results are included in the public accounts of the Province of Prince Edward Island.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

a) Loans receivable

Working capital loans are issued to qualified lenders and are recorded at cost less an allowance for possible losses. These loans bear interest at the Toronto Dominion Bank prime rate plus 1% to 2 1/4% and are repayable at the end of each sector's operating season or specific project.

Mortgage loans consist of loans issued to Prince Edward Island enterprises for purposes of acquiring property and equipment. These loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 20 years with interest rates ranging from 4% to 12.62%.

Interest income is recorded on the accrual basis until such time as the loan is classified as non-current. A loan is classified as non-current when the Agency has been unsuccessful in its attempt to collect arrears payments or have the loan satisfied.

An impaired loan is a loan in arrears in excess of 120 days or where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

b) Allowance for possible losses

An allowance is maintained which is considered adequate to absorb all credit losses and is deducted from the applicable asset on the balance sheet.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions on loans receivable and property holdings total \$29,249,475 (2010 - \$28,070,463).

The company reviews its loan portfolios and leased properties on an ongoing basis to assess whether a loan should be classified as impaired, or as an allowance or as a write-off.

A variety of methods are used to determine the amount expected to be recovered from impaired loans and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2011

A general provision on loans receivable and leased property of \$9,364,865 (2010 - \$7,642,587) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgment, the economic climate and the maturity and financial strength of the investee.

c) Property holdings and amortization

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition. The amount expensed during the year ended March 31, 2011 was \$2,618 (2010 - \$10,239).

Foreclosed projects are carried at the lower of cost of the impaired asset prior to realization of the related security and the underlying estimated realizable value of the security.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

d) Pension liabilities

The Agency's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not the Agency and no liability for these costs has been accrued by the agency at March 31, 2011.

e) Estimated realizable value of financial instruments

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the Agency's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

f) Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2011

g) Financial instruments

Financial instruments are comprised of cash, accounts receivable, loans receivable, accounts payable and accrued liabilities, due to Province of Prince Edward Island and notes payable. They are classified and accounted for as follows:

- Loans receivable are recorded at amortized cost using the effective interest method.
- Notes payable are recorded at amortized cost using the effective interest method.
- Due to their short-term nature, all other financial instruments are carried at amounts which are considered to approximate their fair value.

P.E.I. Lending Agency does not enter into hedging activities and does not engage in derivative transactions.

h) Financial risk management objectives and policies

P.E.I. Lending Agency's risk management policies are part of the overall management of the Agency's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements and actions. As part of the overall management of the Agency's operations, management considers avoidance of undue concentrations of risk, and employs appropriate investment and credit management policies to manage the Agency's exposure.

3 Due from (to) the Province of Prince Edward Island

	2011	2010
	\$	\$
Current operations		
Balance - Beginning of year	1,000,000	-
Repaid by the province during the year	(1,000,000)	-
Grant receivable	-	1,000,000
Balance - End of year	-	1,000,000
 Alternative Heating loan program		
Balance - Beginning of year	(215,600)	(428,000)
Repaid to the province	140,000	212,400
Balance - End of year	(75,600)	(215,600)

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2011

In 2006 and 2007, the Province of Prince Edward Island advanced \$1,330,000 in non-interest bearing funds to P.E.I. Lending Agency to be disbursed as unsecured loans administered by the Agency under the Alternative Heating Loan program. The Agency has disbursed \$1,189,860 in loans approved and guaranteed by the Provincial Department of Energy at an interest rate of 6%. Repayment terms vary on these loans from one to five years. Principal repayments received on these loans plus any undisbursed program funds are repayable to the Province. Interest earned on the loans is revenue of the P.E.I. Lending Agency

During 2009, two new energy loan programs were administered by the P.E.I Lending Agency, the Renewable Energy and Eco Energy loans. These loans are financed by the Agency and are guaranteed by the provincial Department of Energy. There were no new loan programs in 2011, however the Eco Energy loan program has been extended to 2012.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2011

4 Loans receivable

					2011	2010
	Total	Impaired loans included in total		Allowance for possible losses		
	\$	\$		General	Specific	Net
Working capital loans						
Agriculture	11,045,908	4,587,131	1,259,865	2,912,012	6,874,031	5,162,956
Tourism	919,949	-	-	-	919,949	1,287,624
Manufacturing and processing	1,365,841	58,403	-	-	1,365,841	1,217,711
Fisheries	2,259,086	-	-	-	2,259,086	1,867,116
Small business	5,853,149	-	-	-	5,853,149	2,823,210
Aerospace	3,339,865	-	-	-	3,339,865	3,448,908
	24,783,798	4,645,534	1,259,865	2,912,012	20,611,921	15,807,525
Mortgage loans receivable						
Alternative Heating program	74,614	5,182	-	-	74,614	215,439
Agriculture	18,962,767	3,742,335	500,000	40,000	18,422,767	17,001,952
Tourism	27,796,949	9,848,820	500,000	2,000,000	25,296,949	20,273,537
Manufacturing and processing	15,515,215	360,100	650,000	175,000	14,690,215	16,156,716
Fisheries	64,536,081	22,308,752	4,555,000	100,000	59,881,081	53,542,338
Aquaculture	148,209	148,209	-	65,000	83,209	35,824
Small business	15,826,215	2,596,860	200,000	400,000	15,226,215	14,426,273
Blueberry	4,296,021	2,462,650	1,350,000	1,200,000	1,746,021	1,847,776
Cranberry	2,215,146	2,215,146	350,000	1,150,000	715,146	581,489
Aerospace	9,145,792	-	-	-	9,145,792	10,179,555
Renewable energy	360,098	25,095	-	-	360,098	627,073
Eco energy	4,166,273	107,870	-	-	4,166,273	3,805,573
Other	24,657,625	24,657,625	-	20,715,915	3,941,710	3,632,103
	187,701,005	68,478,644	8,105,000	25,845,915	153,750,090	142,325,648
	212,484,803	73,124,178	9,364,865	28,757,927	174,362,011	158,133,173

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2011

Continuity of allowance for possible losses

	2011	2010
	\$	\$
Allowance for possible losses - Beginning of year	35,498,503	31,136,875
Add: Provision recorded during year	4,046,815	5,281,133
Less: Transferred to property holdings	(1,399,536)	(919,505)
Less: Loans written off during the year	(22,990)	-
Allowance for possible losses - End of year	<u>38,122,792</u>	<u>35,498,503</u>

5 Property holdings

	2011	2010
	\$	\$
Foreclosed projects - land, buildings and equipment held for resale	644,445	306,443
Less: Allowance for possible losses	(491,548)	(214,547)
	<u>152,897</u>	<u>91,896</u>

Continuity of allowance for possible losses

	2011	2010
	\$	\$
Allowance for possible losses - Beginning of year	214,547	2,145,783
Add: Provision (recovery) recorded during year	40,000	(12,583)
Add: Transferred from loans receivable	1,399,536	919,505
Less: Write-offs	(1,162,535)	(2,838,158)
Allowance for possible losses - End of year	<u>491,548</u>	<u>214,547</u>

6 Notes payable

	2011	2010
	\$	\$
Short-term promissory notes	19,750,010	18,000,010
Long-term	153,886,981	140,006,895
	<u>173,636,991</u>	<u>158,006,905</u>

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2011

The notes payable - long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 3.28% to 4.48%.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as indicated below:

	\$
Year ending March 31, 2012	54,549,716
2013	22,134,160
2014	34,345,921
2015	37,719,758
2016	22,046,487

7 Contingent liabilities

A counterclaim has been commenced against P.E.I. Lending Agency in response to an action for a deficiency remaining after realization on collateral held by the P.E.I. Lending Agency. The claimant has not provided any details as to the nature and extent of damages or loss for which they seek compensation. It is management's opinion that no liability is likely to arise as a result of this counterclaim. The counterclaim is presently still ongoing.

8 Commitments

The P.E.I. Lending Agency new loans approved but not disbursed at March 31, 2011 amount to \$1,200,500 (2010 - \$9,721,859).

9 Related party transactions

Balance Sheet

Included in accounts payable and accrued liabilities is \$68,587 (2010 - \$153,161) in accrued interest payable to the Province of Prince Edward Island.

Statement of earnings

Included in expenses is the following in interest paid/payable to the Province of Prince Edward Island:

	2011	2010
	\$	\$
Interest on long-term borrowings	5,668,744	5,849,387
Interest on short-term notes payable	154,829	48,997
	<hr/>	<hr/>
	5,823,573	5,898,384

The above transactions were recorded in the normal course of operations.

P.E.I. Lending Agency

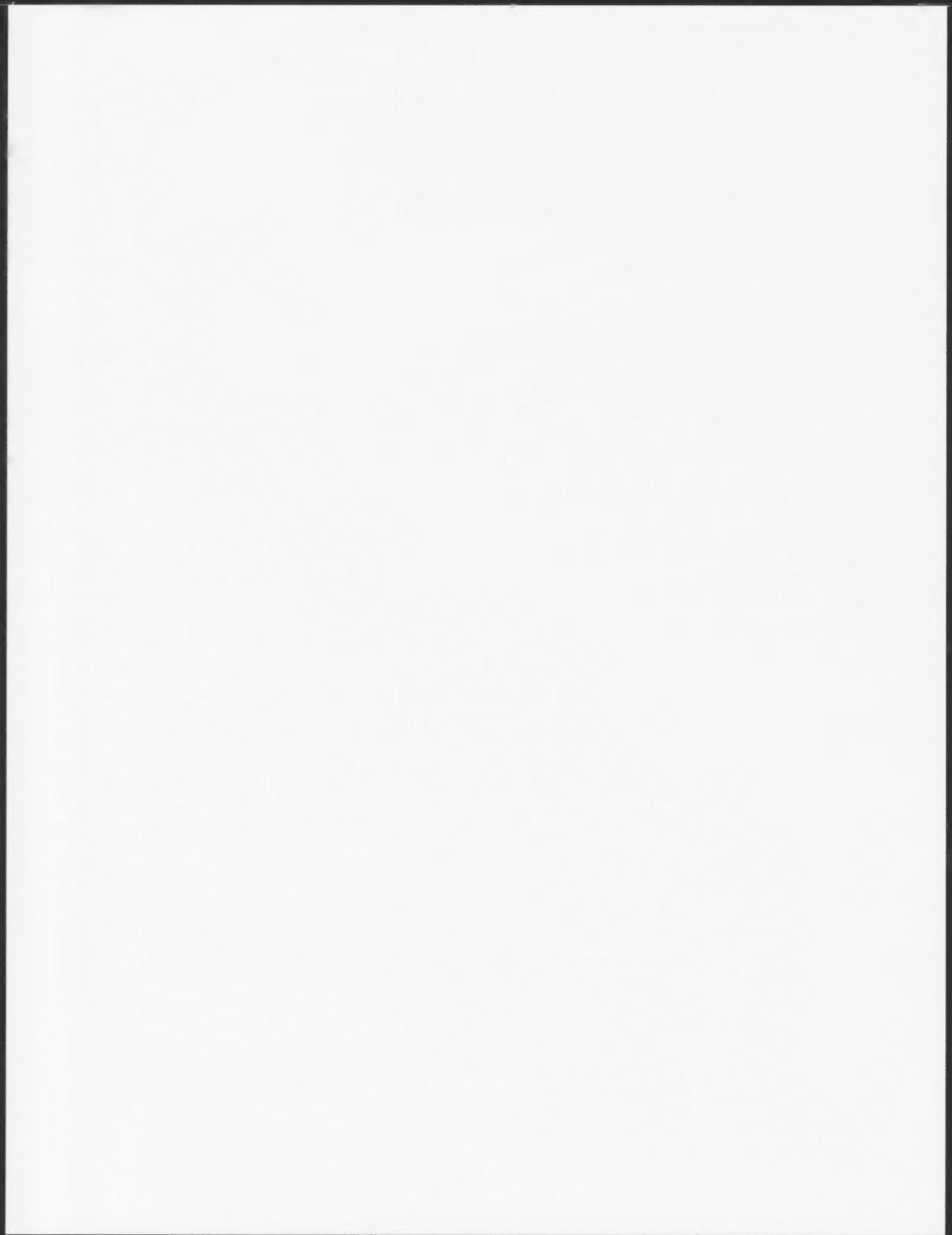
Notes to Financial Statements

March 31, 2011

10 Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Agency's interest rate risk position is limited by the fact that borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which could prepay earlier.

	Within 1 year \$	After 1 year but within 5 years \$	After 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash	620,817	-	-	-	620,817
Accounts receivable	-	-	-	439,509	439,509
Loans receivable	24,277,549	138,809,012	11,275,450	-	174,362,011
Property holdings and leased property	-	-	-	152,897	152,897
Total assets	24,898,366	138,809,012	11,275,450	592,406	175,575,234
Liabilities and deficit					
Accounts payable and accrued liabilities	-	-	-	239,967	239,967
Due to Province of Prince Edward Island	-	-	-	75,600	75,600
Notes payable	54,549,716	116,246,327	2,840,948	-	173,636,991
Surplus	-	-	-	1,622,676	1,622,676
Total liabilities and deficit	54,549,716	116,246,327	2,840,948	1,938,243	175,575,234
Interest rate sensitivity gap	(29,651,350)	22,562,685	8,434,502	(1,345,837)	-
Cumulative interest rate sensitivity gap	(29,651,350)	(7,088,665)	1,345,837	-	-



Clarification to Note 4 of Financial Statement

Appendix E

Column 1 - Total

Represents the total loan/leases divided by economic sector. These balances represent the balance owing at March 31, 2011 before any provision for loss. The "other" category is comprised of loans classified as non-current, wherein interest is no longer being accrued.

Column 2 - Impaired

Represents loans in arrears in excess of 120 days, or where in management's opinion, there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest. Management's assessment is based on the extent of the arrears, the value of collateral security, the cash flow of the borrower and management's judgement. The impaired loans are included in the total loan/leases in column (1).

Column 3 - Allowance for possible losses - General

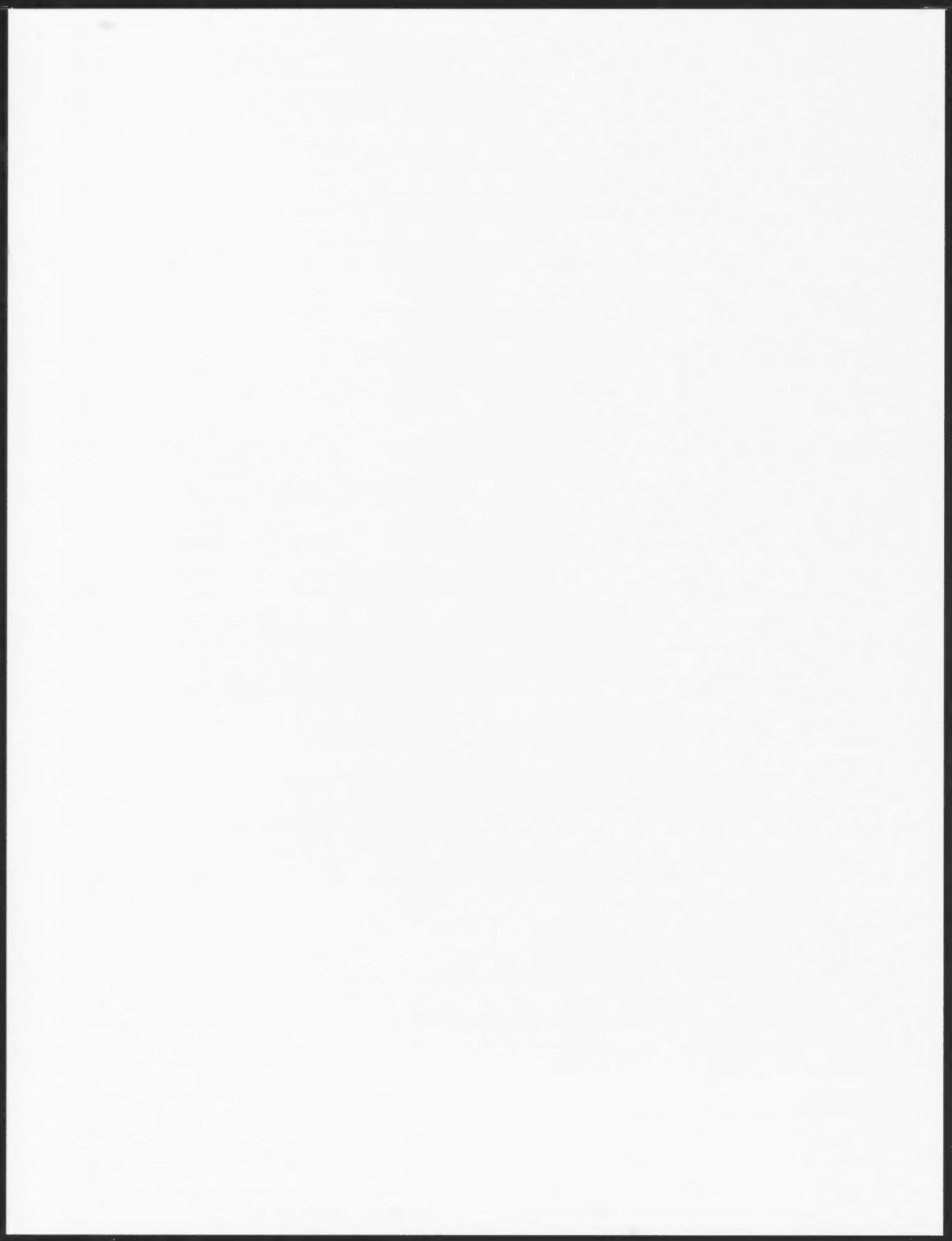
A provision for loss based on management's judgement by sector whereby adverse economic trends suggest losses may occur, but where such losses cannot yet be determined on an item-by-item basis. Management takes into consideration past performance of similar loans, the level of specific provision and the existing economic climate.

Column 4 - Allowance for possible losses - Specific

Indicates the provision required to reduce particular assets from their book value to their estimated realizable value. Management takes into account the estimated future cash flow of the borrower and the estimated fair value of the collateral security held of the borrower.

Column 5 - Net

Indicates the total loan/lease (column 1), less the general and specific provisions for loss (columns 3 and 4).





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